Appendix A721-A780

Headline: Adams Golf Inc: Initiating Coverage With a 1-Buy - Target $23 Pt. 1
Rating: 1
Author: B. Lantier 1(212)526-5977/B. Picchi, CFA x5344
Company: ADGO,ELY
Subject: INI,CUS
Industry: INDOTH
Text: Ticker : ADGO Rank(Old): 9-Not Rated Rank(New): 1-Buy.
Price : $9 1/4 52wk Range: $18-9 Price Target (Old): N/A
Today's Date : 08/04/98 Price Target (New): $23
Fiscal Year : DEC

EPS QTR.	1997 Actual	1998 Old	1998 New	1999 Old	1999 New	2000 Old	2000 New
1st:	- -	- -	0.31A	- -E	0.29E	- -E	- -E
2nd:	- -	- -	0.35A	- -E	0.36E	- -E	- -E
3rd:	- -	- -	0.23E	- -E	0.32E	- -E	- -E
4th:	- -	- -	0.19E	- -E	0.29E	- -E	- -E
Year:$	(0.37A)	$ - -E	$ 1.05E	$ - -E	$ 1.26E	$ - -E	$ - -E
Street Est.:		$ - -E	$ - -E	$ - -E	$ - -E	$ - -E	$ - -E

Price (As of 8/03):	$9 1/4	Revenue (1998):	106.0 Mil.
Return On Equity (98):	27%	Proj. 5yr EPS Grth:	25.0 %
Shares Outstanding:	23.1 Mil.	Dividend Yield:	N/A
Mkt Capitalization:	$214.0 Mil.	P/E 1998; 1999 :	8.8x; 7.3x
Current Book Value:	$3.04/sh	Convertible:	None
Debt-to-Capital:	1.6%	Disclosure(s):	A,C

* We are initiating research coverage of Adams Golf Inc.,(ADGO,$9 1/4,1) an emerging powerhouse in the golf equipment industry with a 1-Buy Rating.

* Adams Golf has rapidly built brand equity in the competitive golf equipment industry through the success of its Tight Lies line of fairway woods.

* Adams Golf is well positioned to experience solid top and bottom-line growth fueled by new product introductions (a driver and irons) and a meaningful expansion of international sales. All growth will be anchored by the company s position as the leading manufacturer of fairway woods in the U.S.

* Recently Callaway Golf (ELY,$12 5/16,NR) commented that domestic demand for golf clubs is weak and Callaway s stock responded by falling to a new 52-week low. Adams Golf has not been affected by any market weakness because its products and its market segment are in the early stages of their life cycle.

* Adams Golf trades at a 32% discount to its only public peer, the mature Callaway Golf and a 71% discount to its lt-growth rate of 25%. Adams Golf is well-positioned to meet our EPS growth expectations and it should trade to at least 75% of its growth rate (19x). We rate the shares of Adams Golf a 1-Buy with a 12-month target of $23/share (19 times our 1999 est. of $1.26).

We are initiating research coverage of Adams Golf, Inc., (ADGO,$9 1/4,1) with a 1-Buy recommendation. Adams Golf is a leading manufacturer of premium golf clubs, specifically fairway woods that are sold under the Tight Lies brand name. The company s brand equity has grown meaningfully in the last 18 months and we expect Adams to leverage its brand with new product introductions and to improve its retail distribution. Our 1-Buy recommendation is based on the following factors:

(1) The Strength of the Tight Lies Brand

Adams Golf has successfully and recently established its Tight Lies brand as one of the major premium brands in the golf equipment industry. We expect Adams to end 1998 among the four golf equipment manufacturers in the United States with sales in excess of $100 million (others: Callaway, Taylor Made, and Titleist/Cobra). To achieve this level of success while offering only one product line Adams is not a meaningful competitor in any other golf club categories (irons, drivers, wedges or putters) is a testament to the strength of the company s business model and the quality of its clubs.

(2) Unique Marketing Approach
Adams Golf has redefined the marketing model for golf companies through its unique sales and marketing methods as we show below:

Adams Golf	Traditional Golf Equipment Co.
In-House Salesforce	Independent Agent Salesforce
Direct Response Advertising	N/A (None)
Targeted Image Advertising	General Image Advertising
Earnings Neutral Marketing	Pro Endorsement Contracts

(3) New Products Will Offer Long-Term Growth
As we noted above, we expect Adams Golf to be among the top five manufacturers of golf clubs in the U.S. in 1998 with just a single line of clubs (5 fairway woods offered in both graphite and steel shafts). Adams looks to leverage its brand strength and strong retail relationships to enter the premium driver and iron markets over the next 3 years.

(4) Strong Design Team = Meaningful New Products
Senior management of Adams Golf complements its knowledge of club design with industry experts, like Bob Bush, who are focused on delivering high quality new products to the market.

(5) Nick Faldo Endorsement
The lifetime endorsement agreement with Mr. Faldo should benefit Adams Golf in a number of ways. First, international sales, which are not now a major portion of sales, should benefit from the endorsement of one of golf s most accomplished players. Mr. Faldo s successful European career should help sales to that continent in particular. Second, Mr. Faldo s input on club design (particularly for specialty products like wedges) should improve the final product. Finally, Mr. Faldo should improve the company s exposure on the major professional golf tours.

(6) Favorable Trends for Golf
The game of golf continues to attract a wider audience as a result of increased media coverage of young stars like Tiger Woods, Annika Sorenstam, Se Ri Pak and Ernie Els. In 1997, three million new golfers tried the sport for the first time (a 50% increase over 1996 figures). Although the typical Adams customer is still a middle-aged, avid golfer, an expansion of the industry will benefit Adams in the long-run.

ADAMS 008266

Addressing the Post-IPO Stock Performance
Shares of Adams Golf have come under pressure over the past three weeks as a result of a series of industry issues that do not parallel the current operating environment of Adams Golf. We believe that the post-IPO decline of Adams Golf s shares represent an excellent opportunity for value investors to purchase one of the fastest growing consumer product companies of the 90 s at a very reasonable price.

Callaway Golf Stumbles
Callaway Golf (ELY,$12 5/16,NR) recently held a conference call regarding its second quarter results After pre-announcing in May that the company would

miss analysts second quarter estimates of $0.62/share, the company still missed revised estimates of $0.32/share, reporting EPS of $0.30/share. The company s guidance for the rest of 1998 was the real news: Callaway expects to lose up to $0.20/share in the second half of the year, reducing 1998 EPS to as little as $0.25/share.

Callaway cited increased competition from companies like Adams Golf (innovative designs taking market share) and Taylor Made (price discounting), weak Asian sales, and a weak domestic golf club market (a point we dispute) for the poor operating results. The Street s consensus estimate ELY for 1998 has fallen from $2.23/share in February to just $0.40/share today. Callaway s stock price is just 1/3rd of its year ago price as a result of its weakened earnings outlook. As the bellwether for the golf equipment industry, the negative comments from Callaway have impacted the shares of its closest public rival, Adams Golf.

Disclosure Legend: A-Lehman Brothers Inc. managed or co-managed within the past three years a public offering of securities for this company. B-An employee of Lehman Brothers Inc. is a director of this company. C-Lehman Brothers Inc. makes a market in the securities of this company. G-The Lehman Brothers analyst who covers this company also has position in its securities.

ADAMS 008267

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However, we see little connection between Callaway and Adams. Indeed, one might argue that Adams success has been a contributing factor to Callaway s downfall. Below we address the issues facing Callaway Golf and any potential impact on Adams.

Problem	Impact?
Margin Compression	Adams gross margin will eventually decline as its sales mix shifts, but 2Q gross margins were 77%.

ADAMS 008268

Product Saturation	There are 5 million avid golfers in the U.S. Avid golfers are the early adopters of new products and bought the first titanium drivers in 1995. However, these 5 million avid golfers are on a 4 yr replacement cycle for their premium clubs. Callaway and its competitors have been - selling over 1.0 million titanium drivers per year. Essentially, every avid golfer in the market already owns the latest technology , hence the Callaway is experiencing a slowdown in sales.
Asian Crisis	Adams gets less than $1.0 mill in sales annually from Asia.
Weak Domestic Sales	Total dollar sales of golf clubs may be slightly weaker than a year ago, but Adams segment fairway woods is growing at 15% annually.
Market Share Erosion	New market entrants, like Orlimar Golf and established companies like Callaway and Taylor Made will intensify their push for a piece of the fairway wood market.

Competition
Callaway Golf has announced plans to introduce a new product in August prior to the Las Vegas PGA Show. Callaway hopes to slow the loss of its market share in woods with this new product. Indications from Callaway have been that it will not be shallow-faced club like the Adams Tight Lies. We believe that the club will probably be marketed on the basis of its composite materials rather than design. Until this club is revealed and selling in the retail channel it will be difficult to judge its impact on Adams Golf.

Orlimar Golf (privately-held) introduced a premium fairway wood in January 1998 and has followed the Adams Golf marketing model (principally direct response marketing) to grow sales from under $1.5 million in 1997 to a projected level in excess of $60 million in 1998. Orlimar s golf club utilizes a shallow-faced design like the Adams Tight Lies combined with exotic metals (Miraging Steel, Copper/Tungsten Alloys) for an additional marketing angle. Early production problems at Orlimar appear to have been corrected and we will closely watch for new developments at Orlimar.

What catalysts will get this stock moving?
For one, any indication of market acceptance of Adams new driver (introduced early as Q1 1999) will be very helpful. For another, success in expanding overseas, especially in Europe, will be welcome. Finally, continued favorable reports of earnings growth and steady/improving market share data would be received well by investors.

Valuation
We believe that Adams long-run (3-5 years) earnings growth can be 25% per year, perhaps higher. Smaller capitalization stocks seldom trade at 100% of their growth rates on a P/E basis. But the better companies in our coverage group trade at 85%-90% of their growth rates. Adams, we believe, will trade slightly lower than that 70%-80% (mid-point 75%) because it operates in a highly competitive market in which new club designs can displace market leaders (not easily, but it can occur). Thus, we believe that Adams shares can and will eventually trade at 18-19 times (75% x 25% annual growth rate) our 1999 earnings estimate of $1.26/share or $23 per share.

Conference Call:

Management from Adams Golf will be hosting a conference call on Thursday, Aug. 6th at 5:00pm EDT. Investors may register for the call by dialing (800) 289-0579 confirmation number #516-761.

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ADDITIONAL COMMENTS:

ADAMS 008271

NationsBanc Montgomery Securities

Volume 29

Equity Research

ADAMS GOLF, INC.*

RATING: BUY

August 4, 1998	CONSUMER PRODUCTS	NASDAQ: ADGO

John W. Weiss (415) 627-2240

Brachen J. White (415) 913-3528

Basic Report

DJIA: 8842
S&P 500: 1118
NMSGI: 119

PRICE:	$9-3/4	FY ENDS 12/31	1997	1998E	1999E
52-WEEK RANGE:	$18-9				
FULLY DILUTED SHARES O/S:	23.4 MM	Q1 (MAR)	$0.00	$0.31A	
MARKET CAPITALIZATION:	$228.2 MM	Q2 (JUN)	0.00	0.35A	
AVG. DAILY VOL. (3 MOS.):	947,878	Q3 (SEP)	0.24	0.22 (3)	
SECULAR EPS GROWTH:	25%	Q4 (DEC)	0.31 (2)	0.20 (4)	
1998E REVENUES:	$106 MM	FISCAL YEAR	$0.57 (2)	$1.05	$1.25
MARKET CAP./REVENUES (1):	215%	P/E	17.1	9.3	7.8
3/98 TOTAL DEBT (1):	$1.1 MM	P/E/G	68%	37%	31%
3/98 LTD/TOTAL CAP. (1):	1%				
1998 ROAE:	45%	(1) Adjusted for IPO in July 1998.			
3/98 SHAREHOLDERS EQ.(1):	$72.9 MM	(2) Excludes stock compensation and bonus award.			
3/98 BOOK VALUE/SHARE (1):	$8.11	(3) Net income is projected to increase 86%.			
DIVIDEND/YIELD:	NONE	(4) Net income is projected to advance 15%.			

* NationsBanc Montgomery Securities LLC currently maintains a market in this security. NationsBanc Montgomery Securities LLC was manager or co-manager of a public offering and/or has performed investment banking or other services for this company in the last three years.

Coverage Initiated

- We have initiated coverage of Adams Golf, Inc., with a rating of BUY, and purchase is recommended.
- The company is currently experiencing rapid growth as a result of strong consumer acceptance of its Tight Lies fairway woods.
- Our EPS estimate for 1999 assumes that growth of Adams' fairway wood sales in the U.S. slows from the current unsustainable pace, but that the company begins to tap presently unexploited markets outside the U.S. and achieves sales of $27 million from a new driver.
- It should be remembered that when Callaway's sales and EPS grew strongly in the 1992-1996 period, there was never much "visibility" into the next year in terms of new products.

ADAMS 004249

Summary and Investment Conclusion

We have initiated coverage of Adams Golf, Inc., with a rating of BUY, and purchase is recommended. Adams Golf is currently experiencing extremely rapid growth as a result of strong customer acceptance of its Tight Lies fairway woods, which enhance golfers' ability to hit from a variety of poor lies and still achieve good distance. Sales rose from $3.5 million in 1996 to $36.7 million in 1997 and jumped from $5.4 million to $58.3 million in the first half of 1998. We expect annual sales to rise from $36.7 million in 1997 to $106 million in 1998 and $162.5 million in 1999. EPS are anticipated to increase from $0.57 in 1997 to $1.05 in 1998 and $1.25 (+19%, with 11% more shares outstanding) in 1999.

The critical issues are the following:

- What are the prospects for growth in Adams' sales of fairway woods in the U.S. in 1999, which will be the fourth year of the original Tight Lies 4-wood and the third year for most of the other lofts? We assume that Adams' sales decline sequentially (but still increase dramatically year to year) in the third and fourth quarter of 1998, primarily because of normal seasonality of demand. The declines we project in EPS in the third and fourth quarters of 1998 on a year-over-year basis reflect an 86% increase in shares outstanding. In addition, we project that growth of Adams' fairway wood sales in the U. S. slows to 7% in 1999 as a result of the age of the product, recent increased availability of Orlimar fairway woods at retail and the introduction by Callaway of a new and presumably improved fairway wood. There are no signs currently of a decline in demand for Adams' products based on comments by retailers and the maintenance of retail prices at $199 per club at almost all outlets. Our 1999 EPS estimate assumes that Adams lowers its wholesale price by $10 per club in 1999, which should allow retailers to continue to achieve attractive gross profits on Adams' fairway woods even if retail prices slip somewhat.

- Will Adams be successful in selling its fairway woods in foreign markets, which accounted for only 2% of Adams' sales but 50% of industry sales in 1997? Adams has already named 33 distributors in 39 countries, and the initial sell-in to most of these distributors in the second quarter of 1998 was above plan. Early indications are that consumer demand for Adams' products is strong in many foreign countries at retail prices that are equivalent to $300-400. These retail prices are likely to decline as distribution is broadened, and this should further stimulate consumer demand.

  Our 1999 EPS estimate assumes that foreign markets represent 23% of Adams' fairway wood sales. Foreign sales accounted for 33% of Callaway's sales in the third year of the original Big Bertha line.

- Will Adams be successful in introducing new products? The company expects to introduce a driver incorporating a new but unspecified technology in early 1999. Our 1999 EPS estimate assumes that sales of this product approximate $27 million next year, which seems achievable if a market share of only 4% is attained in the U. S. We estimate Adams' dollar share of fairway woods in the U. S. at 16% in 1998. We believe about 1.1 million golfers will own one or more Adams fairway woods by mid-1999. Our projection of driver sales of $27 million in 1999 could be achieved if only 12% of the owners of Adams fairway woods purchased a driver. For the industry and for Callaway, driver sales approximate fairway wood sales.

Projections for a new product are inherently speculative. However, we believe investors should remember that in the 1992-1996 period, when Callaway's sales and earnings grew strongly, there was never much "visibility" for that company into the next year in terms of new products. In addition,

Callaway shares were often volatile in response to concerns such as "I saw a Big Bertha in Costco" or "some retailer offered a Big Bertha at $10 below an earlier price" that proved to be irrelevant. We expect Adams stock to also be volatile.

In view of Adams' currently very low sales in foreign markets and the absence of a driver, success in either or both of these untapped segments has the potential to dramatically expand Adams' sales, assuming sales of existing products are maintained. Because of the company's unusually high gross margin of 74%, small changes in market share or sales can have a significant effect on EPS. A 5% point change in market share in fairway woods or drivers either in the U. S. or in foreign markets can influence EPS by $0.30-0.35.

We believe the stock's current P/E multiples of 9.3x projected 1998 EPS and 7.8x estimated 1999 profits discount the uncertainties associated with any rapidly growing company that is dependent on successful new products. As suggested, our key assumptions appear to provide opportunities for favorable surprises. It should also be noted that Adams has cash of $3 per share and no debt.

Products

Adams is a leading manufacturer and marketer of a line of premium-quality, technologically innovative fairway woods sold under the Tight Lies brand name. Fairway woods account for 97% of sales.

The Tight Lies fairway woods are made out of stainless steel (not titanium) and feature a shallow face, trapezoidal head and low center of gravity. The design of the clubs enhances golfers' ability to hit from a variety of poor lies (rough, fairway bunkers, bare lies) and still achieve good distance. In addition, it is believed that the shallow face also enhances golfers' confidence in their ability to get the ball airborne.

The Original Tight Lies (4-wood) was named the "Breakthrough Product of the Year" in 1996 by the International Network of Golf.

Beginning in late 1996, Adams significantly broadened its product line to include four other fairway woods. Demand has been strong for these four new products, as many golfers have replaced long irons with fairway woods. These four new fairway woods account for almost 50% of Adams' sales.

Product	Loft	Time of Introduction	Estimated Percentage of 1Q98 Sales
Original Tight Lies (4-Wood)	16%	Fall 1995	49%
3-Wood	13%	December 1996	27%
5-Wood	19%	December 1996	11%
7-Wood	24%	December 1996	8%
9-Wood	28%	January 1998	2%
Other Clubs[1]			3%
Total			100%

(1) Includes Air Assault Driver and Assault-VM7 irons.

ADAMS 004251

Potential New Products

The company is currently developing a driver that incorporates new technology. We expect this product to be introduced early in 1999. Our 1999 estimate assumes that a driver produces sales of $27 million (16% of total sales).

Sales of drivers approximate sales of fairway woods for the industry and Callaway, suggesting that if successful, a driver has the potential to double Adams' sales. In addition, we estimate that Adams will have sold about 1 million fairway woods to about 700,000 golfers by the end of 1998, with about 1.1 million golfers expected to own one or more Tight Lies by mid-1999. If 12% of those golfers purchase an Adams driver in 1999, driver sales of about $27 million would be generated.

The company is also developing a new line of irons.

Barney Adams, founder, chairman, CEO and President, developed the Tight Lies technology and continues to lead the company's R&D effort. Richard Murtland, vice president—research and development, joined the company in 1994 and has extensive engineering experience. Nick Faldo, one of the top golf professionals in the world and a shareholder of Adams Golf, has an endorsement contract and will be actively involved in developing and testing new products. In addition, Adams Golf will utilize two independent consultants. Robert Bush has over 30 years of experience in golf club development, including director of technical services for True Temper, a leading shaft manufacturer. Dr. Michael Carroll is Dean of the School of Engineering at Rice University and has Ph.D. degrees in physics and mathematics and a single-digit handicap.

The Industry and Competitive Environment

While there are no reliable industry statistics, golf equipment industry sales are generally believed to be as follows:

SALES OF GOLF EQUIPMENT
Wholesale
($ millions)

	U.S.	Rest of the World	Total
Drivers	$600	$600	$1,200
Fairway Woods	$600	$600	$1,200
Irons	$800	$800	$1,600
Putters	$200	$200	$400
Other	$200	$200	$400
	$2,400	$2,400	$4,800

Source: NationsBanc Montgomery Securities LLC.

It is believed that the market in the U.S. and non-Asian foreign markets (65% of foreign) are achieving reasonable growth and that Asian markets are currently declining.

Fairway woods are the fastest-growing segment of the golf club market as more and more golfers substitute 5-woods, 7-woods and 9-woods for long irons. This trend has been further stimulated by new golf course designs that require golfers to hit high shots on the fly into well-guarded greens. In addition, the use of 7-woods and even 9-woods by professionals on the Ladies and Senior PGA Tours are encouraging amateurs to use such clubs.

We estimate market shares in the U.S. as follows for full-year 1998.

ADAMS 004252

U.S. MARKET SHARES (1)

	1998 Estimates	
	Dollar Sales	Units
Fairway Woods		
Calloway	22%	17%
Adams	16%	16%
Taylor-Made	18%	15%
Drivers		
Calloway	25%	16%
Taylor-Made	20%	17%

(1) Based on NationsBanc Montgomery estimates.

Adams is very close to being the leader in fairway wood sales in units. We believe Orlimar's dollar share of fairway woods could approximate 10% in 1998.

We believe Adams and Orlimar are currently significantly increasing their market shares in fairway woods. Callaway's market share and dollar sales are declining.

Adams' retail prices are similar to those for Callaway's War Bird and Taylor-Made's stainless steel product and below the price of Orlimar's products.

TYPICAL RETAIL PRICES FOR FAIRWAY WOODS

	Calloway
War Bird (1)	$199
Great Big Bertha(1)	$329
	Taylor-Made
Stainless Steel(1)	$199
Titanium(1)	$299
	Adams
Infomercial(1)	$219
Retail(1)	$199
	Orlimar
Infomercial(1)	$280
Retail(1)	$269

(1) With graphite shaft.

ADAMS 004253

Source: NationsBanc Montgomery Securities LLC.

Callaway plans to introduce a new line of stainless steel metalwoods in August 1998. This club is not "low-profile" and will be "oversized." We estimate the wholesale price at $175 with a graphite shaft and expect retail prices to initially be $230-240.

We expect the new Callaway product to have a lower center of gravity than existing Callaway fairway woods, and we believe the new product will perform well. However, not all of the sales of the new product will be incremental, and the new fairway wood line could accelerate the recent decline in sales of the Great Big Bertha and War Bird fairway woods.

We believe it is likely that Callaway will also introduce a new line of titanium fairway woods and drivers in January 1999 at prices well above those anticipated for the new stainless steel products.

Orlimar began selling its TriMetal fairway woods in January 1998 with an infomercial, and sales at retailers have increased significantly in recent months. Retailers indicate that the club is selling very well.

We are certainly not oblivious to the new fairway woods from Callaway and the competition from Orlimar. These factors as well as normal seasonality of demand cause us to expect Adams' sales to decrease sequentially in the third and fourth quarters of 1998.

Tour Usage

Adams does not pay any professional golfer other than Nick Faldo to use its clubs and has no club modification support staff on the tours. This has limited usage on the pro tours.

RECENT TYPICAL SENIOR PGA TOUR USAGE

	Fairway Wood Shares
Callaway	25-30%
Orlimar	30-35%
Adams	5%

Adams penetration on other PGA tours is also about 5%.

Involvement of Nick Faldo

Nick Faldo, one of the greatest golfers in the sport's history, has a long-term cooperative agreement with Adams Golf. Mr. Faldo has won the prestigious British Open three times and Masters three times. He was ranked number one in the Official World Golf Ranking in 1993 and 1994 and has played in more Ryder Cub tournaments (Europe versus U.S. by qualification or invitation only) than any other golfer in history.

While it is possible that at age 41, Mr. Faldo is past his prime performance years, he is generally considered one of the best ball strikers in history and, importantly, is viewed by all as a consummate perfectionist in terms of his golf swing and equipment. Furthermore, Mr. Faldo is well known outside the U.S., where Adams has significant untapped potential.

Mr. Faldo cannot sign a contract with any other golf club company, and he currently uses the Adams 3-wood. Mr. Faldo will be actively involved in developing and testing new products. In addition, Mr. Faldo has an arrangement with Marriott Golf Centers, which will now be named Faldo Adams Golf Schools. There is currently one such golf school, and there could eventually be 20. Adams can test clubs at these schools, and R&D expenses in effect will be leveraged into advertising.

Mr. Faldo has strong incentive to assist the company to perform well. He has been granted 900,000 common shares and receives 5% of foreign sales.

ADAMS 004254

Marketing

Adams Golf has combined an innovative and differentiated product with extremely effective marketing. Adams ran its first 30-minute infomercial on television in April 1997. The infomercial shows three amateurs of varying ability hitting their own fairway woods and long irons and the Original Tight Lies (4-wood) from a variety of lies. The infomercial is hosted and narrated by Jack Whitaker, the well-known golf announcer, Hank Haney, one of the most respected teaching professionals in golf, Bill Rogers, a former British Open Champion, and Carol Mann, one of the greatest female professionals of all-time. The infomercial was named Best Infomercial Demonstration Show in 1997 by the National Infomercial Marketer Association. The infomercial is viewed positively and not as a competitor by retailers as it builds awareness and generates retail store traffic. In the second quarter of 1998, retail sales accounted for 89% of Adams' U. S. sales. The 4-wood is the only club marketed on the infomercial. In addition, the infomercial price of $219 provides a pricing umbrella for retailers. Retailers can offer the club at $199 and make a value statement versus the infomercial price and still achieve an attractive gross margin.

We believe the attractive gross margin of the Adams Tight Lies line has strong appeal to retailers.

The recent price reductions by Callaway on its WarBird metalwoods had the effect of increasing retailers' gross profit per club from a somewhat unsatisfactory $29 to a more acceptable $49.

GROSS MARGINS TO RETAILERS (1)
Per Club

	Adams	Callaway Warbird
Retail Price	$199	$199
Wholesale Price	$144	$150
Gross Profit	$55	$49
Gross Margin	28%	25%

(1) On clubs with graphite shafts.

Source: NationsBanc Montgomery Securities LLC.

We estimate that retailers will initially achieve gross profits per club of $55-65 on Callaway's new fairway woods. We believe it is important that Adams' clubs continue to provide attractive gross margins to retailers. We recently surveyed about 50 retail golf stores carrying Adams' products, and 74% offered the clubs with graphite shafts at $199. Fifty percent of those with lower prices of $159-189 were either in desert markets where demand is currently seasonally slow or in a single metropolitan area where pricing seems to be less firm. Also, it should be noted that our EPS estimate for 1999 assumes that Adams lowers the wholesale price on its fairway woods by $10 per club, or about 7%. This would allow retailers to continue to achieve a very attractive gross profit per club of $55 even if retail prices eventually slip slightly to $189 per club. At a retail price of $189, Adams' clubs would be priced 20% below the anticipated retail price for Callaway's new stainless steel fairway woods.

The direct sales model has allowed Adams to collect names, addresses and telephone numbers of golfers to whom a new product, when introduced, could be directly marketed.

Returns of products purchased directly (i.e., over the telephone) are only 11%, including clubs that are returned to be replaced with a different shaft.

Adams also employs traditional television ads, radio ads and print ads in the *Wall Street Journal* and *USA Today*.

ADAMS 004255

Adams has just recently begun selling to most major golf club retailers. Many of these retailers do not yet carry all of Adams' SKUs.

Foreign Potential

Sales outside the U.S. accounted for only 9% of Adams sales in the first half of 1998. As noted, industry sales of golf equipment outside the U.S. approximate sales in the U.S. In addition, Callaway's foreign sales represented 35% of its sales (or an estimated 48% including product transshipped from the U.S. to foreign markets) in 1997. This suggests that Adams has significant potential to expand its foreign sales.

Adams has already named 33 distributors in 39 countries. Most of these distributors have experience marketing other golf club lines.

Recent Results and Current Outlook

In the first half of 1998, sales increased from $5.4 million to $58.3 million. Sales jumped sequentially from $24.5 million in the first quarter of 1998 to $33.8 million in the second quarter of 1998.

The gross margin was a very high 76.7% in the first half of 1998 and 77.1% in the second quarter of 1998.

Selling and royalty expenses rose from $6.2 million in the first quarter of 1998 to $11.1 million in the second quarter of 1998 because of the higher sales level and $3 million of expenses for image advertising (no 1-800 number) in the second quarter. We expect selling expenses to be lower in both the third and fourth quarters of 1998 than in the second quarter in terms of absolute dollars and as a percent of sales.

EPS rose from $0.00 in the first half of 1997 to $0.66 in the first half of 1998.

As noted earlier, we expect Adams' sales to decline sequentially from the second quarter to the third quarter and from the third quarter to the fourth quarter. This reflects normal seasonality of demand and initial shipments to some foreign distributors in the second quarter, when foreign sales equaled $4.1 million. In addition, we believe it is prudent to expect the introduction of a new fairway wood by Callaway and greater availability of Orlimar products at retail to have some effect on consumer purchases of Adams' products. The year-to-year decreases we project for EPS in the third and fourth quarters of 1998 reflect an 86% increase in shares outstanding.

Looking ahead to 1999, the three critical assumptions are the rate of growth in the U. S. for fairway woods, the company's sales of fairway woods in recently entered foreign markets and initial acceptance of a new driver expected to be introduced in early 1999.

We expect Adams unit sales of fairway woods to increase 15% and dollar sales to rise 7% in the U. S. We assume that wholesale prices on clubs sold to retailers decline 7%, or $10, and that this will allow retailers to continue to achieve attractive gross margins even if retail prices decline about $10.

If Adams' unit sales of fairway woods in the U. S. advance 15% next year, then cumulative shipments in the U. S. since 1997 would approximate 1.7 million clubs. If golfers owning Adams' fairway woods own on average 1.5 clubs, then this would suggest that 1.1 million golfers, or 9% of active golfers and 5% of total golfers, would own Adams Tight Lies. This seems like an achievable penetration level.

In addition, this rate of sales progression is actually slower than that achieved by Callaway in the first three years of its Big Bertha metalwood line. But this is to be expected because Callaway did not compete with any company as strong as Callaway.

ESTIMATED UNIT SALES OF FAIRWAY WOODS IN THE U. S.

	First Year	Second Year	Third Year
Adams Tight Lies	248,000	687,000	787,000
Sales Index (First Year=100)	100	277	317
Calloway Big Bertha (1)	100,000	310,000	557,000
Sales Index (First Year=100)	100	310	557

(1) Fairway woods only.

We view our projection of foreign fairway wood sales of $30.9 million in 1999 as reasonably achievable. Adams' clubs seem to be selling well in Europe at retail prices that are equivalent to $300-400. Foreign sales of $30.9 million in 1999 would represent only 22% of Adams' total fairway wood sales. It may be instructive to note that Callaway's foreign sales accounted for 33% of its total sales in the third year of the Big Bertha line.

Our most speculative assumption for 1999 is driver sales of $26.6 million because the product involves a new technology and has not been finalized yet. Some of the attributes of the Tight Lies (the ability to hit shots from poor lies) do not necessarily represent attributes that would provide a competitive advantage for a driver. Nevertheless, driver sales of $26.6 million, or 134,000 units, seem quite achievable if an attractive product is developed and introduced. We estimate that about 700,000 golfers will own a Tight Lies fairway wood by the end of 1998 and 1.1 million by mid-1999. If only 12% of these Tight Lies owners purchase an Adams driver, then our sales forecast could be achieved. Our projection for driver sales in 1999 represents market share of only 4% in the U. S. We estimate that Adams has collected the names, addresses and telephone numbers of over 100,000 consumers through its direct marketing activities. Adams could market a driver directly to these individuals. We assume the retail price of the driver will be about $280-290.

We expect Adams' overall gross margin to decline from an estimated 74% in 1998 to a still very high 67% in 1999 for the following reasons. First, direct response sales, which have the highest gross margins, are expected to decrease as a percentage of total sales. Second, foreign sales, which have lower gross margins because of the use of distributors, are expected to increase in importance. Third, we expect a driver to have a slightly lower percentage gross margin (but 20-25% higher dollar gross profit per club) than fairway woods. Finally, as noted, we expect wholesale prices to be reduced slightly on fairway woods sold to retailers. This latter factor is expected to reduce the overall gross margin by only 1% point.

We believe Adams has developed a solid corporate infrastructure and marketing effort. Adams' expenditure levels are similar to those of Callaway when that company had a comparable sales level.

ADAMS 004257

($ millions)	Adams	Callaway
Year	1998E	1992
Sales	$106	$132.1
Selling expense	$27.0	$19.8
% of sales	25.5%	15.0%
G & A expense	$15.0	$15.6
% of sales	14.2%	11.8%
R & D expense	$1.6	$1.6
% of sales	1.5%	1.2%

Adams' significantly higher selling expense ratio reflects its direct marketing effort. We expect Adams' G&A expenses to decline as a percentage of sales over time. The likely increased importance of foreign sales should contribute to a lower selling expense ratio because of the use of distributors, but this may be offset by the initiation of efforts to encourage greater usage among pro golfers.

Because of Adams' extremely high gross margin, modest fluctuations in market share and sales can have a significant effect on EPS. A 5% point change in market share in fairway woods or drivers either in the U. S. or in foreign markets can influence EPS by $0.30-0.35.

Financing Considerations

Based on projected net income, Adams is comfortably self-financing. Internally generated funds are expected to be 180% of increases in working capital and capital expenditures in 1998 and 176% in 1999. In addition, the company's cash is approximately $70 million ($3 per share) and is expected to approximate $83 million (about $3.50 per share) at the end of 1999. The company has no debt.

The $60 million raised by the company in its July 9, 1998, initial public offering represents a "war chest" for unspecified uses that may include possible acquisitions.

Management

Barney Adams, Chairman, CEO and president, founded the company in 1987. Mr. Adams has added a number of key members of management in recent years, and all of these individuals are very experienced in their areas of expertise.

Mr. Adams owns about 3.6 million common shares.

Individual	Position	Age	Years with Adams Golf
Barney Adams	Chairman, CEO and President	60	11
Darl Hatfield	SVP-Finance & Administration, CFO	51	Less than one
Richard Murtland	VP-Research & Development	57	4
James Farrell	VP-Finance	39	1
Mark Gonsalves	VP-Sales & Retail	38	3
Steven Sanazzaro	VP-Information Technology	49	Less than one
Walter DeVault	Director of Customer Service and Consumer Sales		Less than one
Cindy Herington	Director of Advertising and Direct Response Marketing		1

Outside directors include Finis Conner, the founder, chairman and CEO of Conner Peripherals, a manufacturer of disk drives. Under Mr. Conner's leadership, Conner Peripherals achieved one of the most rapid growth ramps in the history of American business, with sales rising from $0 in 1986 to $1.3 billion in 1990.

ADAMS 004258

NationsBanc Montgomery Securities

ADAMS GOLF, INC.

Annual Sales and Earnings Model
($ millions)

FY ends 12/31	1997(1)	1998E	1999E
Sales			
Fairway Woods	$36.7	$106.0	$135.9
United States	35.9	98.1	105.0
Wholesale	26.4	85.8	92.0
Direct Response	9.5	12.3	13.0
Foreign (Wholesale)	0.8	7.9	30.9
Drivers			26.6
United States			21.6
Wholesale			9.6
Direct Response			12.0
Foreign (Wholesale)			5.0
Total Sales	36.7	106.0	162.5
Gross Profits			
Fairway Woods	26.7	78.7	95.0
United States	26.4	75.6	79.2
Wholesale	19.0	66.0	69.1
Direct Response	7.4	9.8	10.1
Foreign (Wholesale)	0.3	3.1	12.1
Drivers	0.0	0.0	17.4
United States			15.4
Wholesale			6.5
Direct Response			8.9
Foreign (Wholesale)			2.0
Total Gross Profits	26.7	78.7	108.7
Selling Expense	13.1	28.0	43.7
G&A Expense	2.1	15.0	19.0
R&D Expense	0.6	1.6	2.6
Total Operating Expense	15.8	44.6	65.3
Operating Income	10.9	34.2	43.4
Other Income (Expense)	(0.1)	0.8	2.6
Pretax Income	10.8	35.0	46.0
Tax Rate	34.0%	37.0%	37.0%
Net Income	7.1	22.0	29.0
EPS	$0.57	$1.05	$1.25
Average Shares Outstanding	12.5	20.9	23.2

(1) Excludes special non-cash charge for stock compensation and assumes a tax rate of 34%.

Gross Profit as % of Segment Sales	1997(1)	1998E	1999E
Fairway Woods			
United States			
Wholesale	72.0%	76.9%	75.1%
Direct Response	78.0%	79.7%	77.7%
Foreign (Wholesale)	40.0%	39.2%	39.2%
Drivers			
United States			
Wholesale			67.7%
Direct Response			74.2%
Foreign (Wholesale)			40.0%
Margin Analysis			
Percent of Total Sales			
Gross Profit	72.7%	74.2%	66.9%
Selling Expense	35.7%	26.4%	26.9%
General and Administrative	5.7%	14.2%	11.7%
Research and Development	1.6%	1.5%	1.6%
Total Operating Expense	43.1%	42.1%	40.2%
Operating Income	29.7%	32.3%	26.7%
Pretax Income	29.4%	33.0%	28.3%
Net Income	19.4%	20.8%	17.8%
Percentage Change - Y/Y			
Total Sales		188.8%	53.3%
Selling Expense		113.7%	56.1%
General and Administrative		614.3%	26.7%
Operating Income		213.8%	26.9%
Other Income (Expense)		NMF	225.0%
Pretax Income		224.1%	31.4%
Net Income		208.6%	31.7%
EPS		91.2%	14.7%
Average Shares Outstanding		67.2%	11.0%

ADAMS 004259

ADAMS GOLF, INC.
Quarterly Sales and Earnings Model
($ millions)

FY ends 12/31	1997 1Q	1997 2Q	1997 3Q	1997 4Q (1)	1998 1Q	1998 2Q	1998 3QE	1998 4QE
Sales								
Fairway Woods					$24.5	$33.8	$25.5	$22.2
United States					23.3	29.7	24.2	20.9
Wholesale					20.5	26.0	21.0	18.3
Direct Response					2.8	3.7	3.2	2.6
Foreign (Wholesale)					1.2	4.1	1.3	1.3
Driver								
United States								
Wholesale								
Direct Response								
Foreign (Wholesale)					—	—	—	—
Total Sales	1.5	4.0	14.2	17.0	24.5	33.8	25.5	22.2
Gross Profits								
Fairway Woods					18.6	26.0	18.4	15.7
United States					18.1	24.4	17.9	15.2
Wholesale					15.9	21.5	15.4	13.2
Direct Response					2.2	3.1	2.5	2.0
Foreign (Wholesale)					0.5	1.6	0.5	0.5
Driver								
United States								
Wholesale								
Direct Response								
Foreign (Wholesale)								
Total Gross Profits	0.9	2.4	10.6	12.8	18.6	26.0	18.4	15.7
Selling Expense					6.2	11.1	6.3	4.4
G&A Expense					3.6	3.7	3.8	3.9
R&D Expense					0.1	0.5	0.5	0.5
Total Operating Expense	0.8	2.4	6.4	6.2	9.9	15.3	10.6	8.8
Operating Income	0.1	0.0	4.2	6.6	8.7	10.7	7.8	6.9
Other Income (Expense)					0.0	0.0	0.4	0.4
Pretax Income					8.7	10.7	8.2	7.3
Tax Rate					36.0%	38.1%	37.0%	37.0%
Net Income	0.04	0.0	3.1	4.0	5.6	6.7	5.1	4.6
EPS	$0.00	$0.00	$0.24	$0.31	$0.31	$0.35	$0.22	$0.20
Average Shares Outstanding	12.5	12.5	12.5	12.5	18.3	19.0	23.0	23.4
Gross Profit as % of Segment Sales								
Fairway Woods								
United States					77.6%	81.2%	73.3%	72.1%
Wholesale					78.6%	83.0%	77.0%	77.0%
Direct Response					40.0%	40.0%	40.0%	40.0%
Foreign (Wholesale)								
Margin Analysis								
Percent of Total Sales								
Gross Profit	60.0%	60.0%	74.7%	75.0%	75.9%	76.9%	72.0%	70.7%
Selling Expense					25.3%	32.8%	24.7%	19.8%
General and Administrative					14.7%	10.9%	14.9%	17.6%
Research and Development					0.4%	1.4%	2.0%	2.3%
Total Operating Expense	53.3%	60.0%	45.1%	36.5%	40.4%	45.3%	41.6%	39.6%
Operating Income	6.7%	0.0%	29.6%	38.8%	35.5%	31.7%	30.5%	31.1%
Pretax Income					35.5%	31.7%	32.0%	32.9%
Net Income	2.7%	0.0%	21.8%	23.5%	22.7%	19.8%	20.2%	20.7%
Percentage Change - Y/Y								
Total Sales					1533.3%	745.0%	79.6%	30.6%
Gross Profits					1966.7%	983.3%	73.3%	22.7%
Operating Income					8600.0%	NMF	84.9%	4.6%
Net Income					13820.0%	NMF	65.9%	15.0%
EPS					NMF	NMF	(6.8%)	(36.6%)
Average Shares Outstanding					46.0%	52.0%	84.0%	87.2%

(1) Excludes stock compensation and bonus award.

ADAMS 004260

ADAMS GOLF, INC.

	Unit Sales			Average Selling Price		
FY end 12/31	1997	1998E	1999E	1997	1998E	1999E
Fairway Woods	256,000	764,000	1,087,000			
United States	248,000	687,000	787,000			
Wholesale	198,000	622,000	719,000	$133	$138	$128
Direct Response	50,000	65,000	68,000	$190	$190	$190
Foreign	8,000	77,000	300,000	$103	$103	$103
Drivers			134,000			
United States			94,000			
Wholesale			55,000			$175
Direct Response			39,000			$305
Foreign			40,000			$125

ADAMS 004261

ADAMS GOLF, INC.
Sources and Uses of Funds
($ millions)

FY ends 12/31	1997	1998E	1999E
Sources			
Net Income	$7.1	$22.0	$29.0
Depreciation		0.2	0.3
Total From Operations	7.1	22.2	29.3
Common Stock	0.0	60.1	0.0
Debt	0.0	0.0	0.0
Other	0.0	0.0	0.0
Total Sources	**7.1**	**82.3**	**29.3**
Uses			
Capital Expenditures	0.8	1.7	4.0
Debt Reductions	0.0	0.0	0.0
Other	0.0	0.0	0.0
Total Uses	**0.8**	**1.7**	**4.0**
Change in Working Capital	**6.3**	**80.6**	**25.3**
Less: Increase in Inventories	0.0	(5.0)	(8.0)
Less: Increase in Receivables	0.0	(9.0)	(8.0)
Plus: Increase in Current Liabilities	0.0	3.0	2.0
Change in Cash	**6.3**	**69.6**	**11.3**
Year-End Figures			
Current Assets	$15.9	$99.5	$126.8
Current Liabilities	$9.0	$12.0	$14.0
Current Ratio	1.8 to 1	8.3 to 1	9.1 to 1
Cash	$2.0	$71.6	$82.9
Debt	$0.0	$0.0	$0.0
Shareholders' Equity	$8.3	$90.4	$119.4

ADAMS 004262

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ADAMS 004263

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Telecom Systems

Paul J. Dravis (415) 913-6242
Enterprise Systems Software

David M. Grossman (415) 627-2356
Information Technology Services

Paul G. Fox (415) 627-2012
Storage, Contract Manufacturing

Brett A. Hodess (415) 627-2355
Semiconductor Capital Equipment

Steven R. Horen (415) 913-5961
Internet Services

Jonathan J. Joseph (415) 627-2925
Semiconductors

Kurtis R. King (415) 627-2820
Computer Systems

Douglas K. Lee (415) 627-3193
Semiconductors

Jeffrey W. Lin (415) 627-2049
Peripherals, Outsource Manufacturing

William A. Magill (415) 913-5028
Telecom Transport

Mark A. McKechnie (415) 627-3177
Wireless Equipment

David M. Raezer (212) 583-8041
Communications Software & Services

David B. Renderman, CFA (415) 627-2786
Internet Software and Services

Alfred V. Tobia, Jr. (212) 583-8016
Data Communications

Greg P. Vogel (415) 627-3034
Internet Software

Clark R. Westmont, CFA (415) 627-3160
Communications Components

NationsBanc Montgomery Securities

ADAMS 004264

NationsBank

ADAMS GOLF INC

FORM 10-Q
(Quarterly Report)

Filed 8/6/1998 For Period Ending 6/30/1998

Address	2801 EAST PLANO PARKWAY
	PLANO, Texas 75074
Telephone	972-673-9000
CIK	0001059763
Industry	Recreational Products
Sector	Consumer Cyclical
Fiscal Year	12/31

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 1998

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________________ to __________

Commission File Number: 0-24583

ADAMS GOLF, INC

(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	75-2320087 (I.R.S. Employer Identification No.)
300 Delaware Avenue, Suite 548 Wilmington, Delaware (Address of principal executive offices)	19801 (Zip Code)

(302) 427-5892
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. [ ] Yes [X] No

The number of outstanding shares of the registrant's common stock, par value $.001 per share, was 23,136,782 on August 6, 1998.

ADAMS GOLF, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

ADAMS GOLF, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	DECEMBER 31, 1997	JUNE 30, 1998
		(UNAUDITED)
Current assets:		
Cash and cash equivalents.	$ 1,955,563	$ 3,363,814
Trade receivables net of allowance for doubtful accounts of $698,341 and $1,148,805 (unaudited) in 1997 and 1998, respectively	7,670,960	16,239,014
Inventories (note 2)	4,486,563	9,669,874
Prepaid expenses	509,350	788,783
Deferred income tax assets	390,164	766,399
Other current assets	937,307	1,120,430
Total current assets.	15,949,907	31,948,314
Property and equipment, net.	603,823	3,047,938
Deferred income tax assets	182,621	240,572
Professional services agreement (note 3) . .	-	9,956,250
Other assets, net.	623,728	711,667
Total assets.	$17,360,079	$45,904,741

LIABILITIES AND STOCKHOLDERS' EQUITY

	DECEMBER 31, 1997	JUNE 30, 1998
Current liabilities:		
Note payable to shareholder.	$ -	$ 534,899
Accounts payable	377,622	2,614,836
Federal income taxes payable	1,020,980	2,208,894
Accrued expenses	7,636,157	8,735,076
Total current liabilities	9,034,759	14,093,705
Stockholders' equity:		
Common stock, $.001 par value. Authorized 50,000,000 shares; 15,719,338 and 19,099,282 (unaudited) shares issued and outstanding at December 31, 1997 and June 30, 1998, respectively	15,719	19,099
Additional paid-in capital	14,123,398	27,202,481
Common stock subscription.	-	(147,129)
Deferred compensation.	-	(1,749,127)
Retained earnings (accumulated deficit). .	(5,813,797)	6,485,712
Total stockholders' equity.	8,325,320	31,811,036
Commitments (note 4)		
	$17,360,079	$45,904,741

See accompanying notes to unaudited condensed consolidated financial statements.

ADAMS GOLF, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1997	1998	1997	1998
Net sales	$3,973,795	$33,817,387	$5,448,735	$58,328,194
Cost of goods sold	1,555,489	7,763,190	2,142,027	13,625,444
Gross profit	2,418,306	26,054,197	3,306,708	44,702,750
Operating expenses:				
Research and development expenses	38,000	466,684	38,000	663,681
Selling and royalty expenses	1,867,324	11,138,531	2,286,061	17,386,730
General and administrative expenses	509,177	3,511,763	837,905	6,376,962
Provision for bad debts	-	180,000	75,767	646,213
Total operating expenses	2,414,501	15,296,978	3,237,733	25,073,586
Operating income	3,805	10,757,219	68,975	19,629,164
Other income (expense):				
Interest income	-	23,084	4,451	33,634
Interest expense	(9,791)	(34,032)	(22,881)	(43,394)
Other	-	(605)	4,350	(101,223)
Income (loss) before income taxes	(5,986)	10,745,666	54,895	19,518,181
Income tax expense (benefit)	(1,531)	4,088,501	14,055	7,218,672
Net income (loss)	$ (4,455)	$ 6,657,165	$ 40,840	$12,299,509
Income (loss) per common share (note 5):				
Basic	$ .00	$ .35	$ .00	$ .68
Diluted	$ .00	$ .35	$ .00	$ .66

See accompanying notes to unaudited condensed consolidated financial statements.

ADAMS GOLF, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

SIX MONTHS ENDED JUNE 30, 1998
(UNAUDITED)

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Common Stock Subscription	Deferred Compensation	Retained Earnings (accumulated deficit)	Total Stockholders' Equity
Balance, December 31, 1997	15,719,338	$ 15,719	$ 14,123,398	$ -	$ -	$(5,813,797)	$ 8,325,320
Issuance of stock options	-	-	2,027,485	-	(2,027,485)	-	-
Exercise of stock options	2,479,944	2,480	927,498	(230,459)	-	-	699,519
Payment of stock subscription	-	-	-	83,330	-	-	83,330
Grant of stock (note 3)	900,000	900	10,124,100	-	-	-	10,125,000
Deferred compensation amortization	-	-	-	-	278,358	-	278,358
Net income	-	-	-	-	-	12,299,509	12,299,509
Balance, June 30, 1998	19,099,282	$ 19,099	$ 27,202,481	$(147,129)	$(1,749,127)	$ 6,485,712	$ 31,811,036

See accompanying notes to unaudited condensed consolidated financial statements.

ADAMS GOLF, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	SIX MONTHS ENDED JUNE 30, 1997	SIX MONTHS ENDED JUNE 30, 1998
Cash flows from operating activities:		
Net income	$ 40,840	$ 12,299,509
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization of property and equipment and intangible assets	82,358	814,522
Loss on retirement of fixed assets	-	101,223
Amortization of deferred compensation	-	278,358
Deferred income taxes	-	(434,186)
Allowance for doubtful accounts	89,967	450,464
Changes in assets and liabilities:		
Trade receivables	(1,209,390)	(9,018,518)
Inventories	(504,770)	(5,183,311)
Other current assets	(112,588)	(462,557)
Other assets	(24,914)	244,246
Accounts payable	238,672	2,237,214
Federal income taxes payable	14,055	1,187,914
Accrued expenses	1,357,899	1,098,919
Net cash provided by (used in) operating activities	(27,871)	3,613,797
Cash flows from investing activities-purchase of equipment	(180,377)	(3,008,255)
Cash flows from financing activities:		
Initial public offering costs	-	(515,039)
Proceeds from notes payable and line of credit	250,000	7,135,641
Repayment of line of credit borrowings	-	(6,000,000)
Repayment of notes payable	(30,406)	(600,142)
Issuance of common stock	-	782,849
Net cash provided by financing activities	219,594	802,709
Net increase in cash and cash equivalents	11,346	1,408,251
Cash and cash equivalents at beginning of period	854,543	1,955,563
Cash and cash equivalents at end of period	$ 865,889	$ 3,363,814
Supplemental disclosure of cash flow information:		
Interest paid	$ 22,881	$ 27,732
Income taxes paid	$ -	$ 6,508,932
Supplemental disclosure of non-cash financing activity-stock issued for professional services agreement (note 3)	$ -	$ 10,125,000

See accompanying notes to unaudited condensed consolidated financial statements.

ADAMS GOLF, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements of Adams Golf, Inc. (the "Company") for the three and six month periods ended June 30, 1997 and 1998 have been prepared by the Company, pursuant to the rules and regulations of the Securities and Exchange Commission. The Company, founded in 1987, designs, manufactures, markets, and distributes golf clubs and provides custom golf club fitting technology. The Company's primary products are fairway woods that are marketed under the trademark Tight Lies-Registered Trademark-.

The information furnished herein reflects all adjustments (consisting only of normal recurring accruals and adjustments) which are, in the opinion of management, necessary to fairly state the operating results for the respective periods. However, these operating results are not necessarily indicative of the results expected for the full fiscal year. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. The notes to the condensed consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements contained in the Company's registration statement (the "S-1") dated July 9, 1998.

2. INVENTORIES

Inventories consist of the following:

	DECEMBER 31, 1997	JUNE 30, 1998 (UNAUDITED)
Finished goods	$ 2,063,803	$ 3,906,505
Component parts	2,422,760	5,763,369
	$ 4,486,563	$ 9,669,874

3. PROFESSIONAL SERVICES AGREEMENT

The professional services agreement consists of a contract entered into by the Company and Nicholas A. Faldo (Faldo), a professional golfer, which provides for Faldo's endorsement and use of Adams products, as well as the design, development and testing of new technologies and products. As consideration for such services, Faldo received 900,000 shares of the Company's common stock, which were valued at the fair market value of the stock ($11.25 per share) as of May 1, 1998, the effective date of the agreement. The value of the stock will be amortized over ten years, which represents the estimated period benefited by the agreement.

4. COMMITMENTS

The Company had outstanding commitments (denominated in U.S. dollars) on letters of credit of $3,056,920 at June 30, 1998 for the purchase of inventory from foreign vendors.

5. INCOME (Loss) PER SHARE

The weighted average common shares used for determining basic income (loss) per common share were 11,873,234 and 18,802,579 for the three months ended June 30, 1997 and 1998, respectively, and 11,873,234 and 18,218,730 for the six months ended June 30, 1997 and 1998, respectively. The effect of dilutive stock options added 235,668 shares and 445,557 shares for the three and six months ended June 30, 1998, respectively, for the computation of diluted income (loss) per common share. Stock options outstanding for the three and six months ended June 30, 1997 were not considered in the computation of net income (loss) per common share because their effect is immaterial or antidilutive.

6. NEW ACCOUNTING PRONOUNCEMENTS

The Company is assessing the reporting and disclosure requirements of SFAS No. 131, DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION. This statement requires a public business enterprise to report financial and descriptive information about its reportable operating segments. The statement is effective for financial statements for periods beginning after December 15, 1997, but is not required for interim financial statements in the initial year of its application. The Company will adopt the provisions of SFAS No. 131 in its December 31, 1998 consolidated financial statements.

In April 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-5 ("SOP 98-5"), REPORTING OF THE COSTS OF START-UP ACTIVITIES which is effective for financial statements issued for periods beginning after December 15, 1998. The Company believes SOP 98-5 will not have a material impact on its financial statements or accounting policies. The Company will adopt the provisions of SOP 98-5 in the first quarter of 1999.

The Company is also assessing the reporting and disclosure requirements of SFAS No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES. This statement establishes accounting and reporting standards for derivative instruments and hedging activities. The statement is effective for financial statements for fiscal years beginning after June 15, 1999. The Company believes SFAS No. 133 will not have a material impact on its financial statements or accounting policies. The Company will adopt the provisions of SFAS No. 133 in the first quarter of 2000.

7. SUBSEQUENT EVENT

The Company completed the sale of 4,000,000 shares of common stock through an initial public offering (the "Offering") on July 15, 1998. The offering resulted in net proceeds to the Company of approximately $58.3 million after deducting offering expenses, discounts and commissions. On July 20, 1998, the Company completed the sale of an additional 37,500 shares of common stock in connection with the underwriters' exercise of their option to cover over-allotments, resulting in net proceeds of $0.6 million. In connection with the initial public offering, the Company had incurred costs of $515,039 through June 30, 1998 which are included in other assets in the accompanying condensed consolidated balance sheet and will be reclassified as a reduction of the proceeds of the stock offering to be recorded in the Company's third quarter.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis is management's representation of the financial position as of June 30, 1998 and the results of operations of the Company for the three months and six months ended June 30, 1997 and 1998. This discussion and analysis should be read in conjunction with the attached unaudited condensed consolidated financial statements and notes thereto, and with the Company's consolidated financial statements and notes thereto included in the S-1.

OVERVIEW

The Company designs, manufactures and markets premium quality, technologically innovative golf clubs. Founded in 1987, the Company operated initially as a components supplier and contract manufacturer. Thereafter, the Company established its custom fitting operation which currently services a network of over 100 certified custom fitting accounts. In the fall of 1995, the Company introduced the original Tight Lies-Registered Trademark- fairway wood and, in December 1996, the Company extended the Tight Lies-Registered Trademark- line to include the Tight Lies-Registered Trademark- Strong 3, Strong 5 and Strong 7, with the Tight Lies-Registered Trademark- Strong 9 being introduced in January 1998. Sales of the Tight Lies-Registered Trademark- line of products increased significantly subsequent to the second quarter of 1997 when the Company launched an infomercial relating to the original Tight Lies-Registered Trademark- fairway wood. The Company's net sales are primarily derived from sales to on- and off-course golf shops and selected sporting goods retailers and, to a much lesser extent, direct sales to consumers, international distributors and the Company's custom fitting accounts.

The Company does not currently manufacture the components required to assemble its golf clubs, relying instead on various component suppliers. Costs of the Company's Tight Lies-Registered Trademark- fairway woods consist primarily of component parts, including the head, shaft and grip. To a lesser extent, the Company's cost of goods sold includes labor and occupancy costs in connection with the inspection, testing and assembly of component parts at its facility in Plano, Texas.

RESULTS OF OPERATIONS

The following table sets forth operating results expressed as a percentage of net sales for the periods indicated. All information is derived from the accompanying unaudited condensed consolidated financial statements. Results for any one or more periods are not necessarily indicative of annual results or continuing trends. See "Seasonality and Quarterly Fluctuations" below.

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1997	1998	1997	1998
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	39.1	23.0	39.3	23.4
Gross profit	60.9	77.0	60.7	76.6
Operating expenses	60.8	45.2	59.4	42.9
Operating income	0.1	31.8	1.3	33.7
Interest expense	0.2	0.1	0.4	0.1
Other income (expense)	-	0.1	0.2	(0.1)
Income (loss) before income taxes	(0.1)	31.8	1.1	33.5
Income tax expense	-	12.1	0.3	12.4
Net income (loss)	(0.1)	19.7	0.8	21.1

THREE MONTHS ENDED JUNE 30, 1997 COMPARED TO THREE MONTHS ENDED JUNE 30, 1998

Net sales increased to $33.8 million for the three months ended June 30, 1998 from $4.0 million for the comparable period of 1997, primarily due to the continued market acceptance of the Company's Tight Lies-Registered Trademark- line of fairway woods, and, to a lesser extent, a price increase effective January 1, 1998. Net sales of the Tight Lies-Registered Trademark- line of fairway woods increased to $32.8 million from $3.3 million for the comparable period of 1997, and increased as a percentage of net sales to 96.9% from 83.8%, respectively. Sales of the Tight Lies-Registered Trademark- fairway woods increased subsequent to the Company's introduction of an infomercial marketing its original Tight Lies-Registered Trademark- fairway wood in the second quarter of 1997. Net sales of other product lines for the three months ended June 30, 1998 increased to $1.0 million from $0.7 million for the comparable period of 1997, but decreased as a percentage of net sales to 3.1% from 16.2%, respectively. Net sales of the Company's products outside the U.S. increased to $4.1 million for the three months ended June 30, 1998 from $0.2 million for the three months ended June 30, 1997, and increased as a percentage of net sales to 12.2% from 6.1%, respectively. The increase in international sales was due to increased market acceptance of the Tight Lies-Registered Trademark- fairway woods and expanded international marketing efforts beginning in the last half of 1997.

Cost of goods sold increased to $7.8 million for the three months ended June 30, 1998 from $1.6 million for the comparable period of 1997, but decreased as a percentage of net sales to 23.0% from 39.1%, respectively, primarily due to an increased percentage of net sales attributable to the higher margin Tight Lies-Registered Trademark- fairway woods and the inherent cost savings associated with buying components in large volumes and assembling them on a substantially increased scale.

Operating expenses are composed primarily of selling and royalty expenses, general and administrative expenses, and to a lesser extent, research and development expenses. Selling and royalty expenses increased to $11.1 million for the three months ended June 30, 1998 from $1.9 million for the comparable period of 1997 as a result of hiring additional employees, incurring increased levels of services provided by independent contractors and increased marketing and advertising efforts. Selling and royalty expenses decreased as a percent of net sales to 32.9% from 47.0% respectively, primarily due to the economies of scale of providing advertising for a substantially higher volume of sales. General and administrative expenses, including provisions for bad debts, increased to $3.7 million for the three months ended June 30, 1998 from $0.5 million for the comparable period ended June 30, 1997, primarily as a result of hiring additional employees and incurring higher occupancy costs. As a percent of sales, general and administrative expenses decreased to 10.9% for the three months ended June 30, 1998 from 12.8% for the comparable period in 1997 primarily due to the fixed nature of many of the general and administrative expenses when compared to the increased volume of net sales. Research and development expenses for the three months ended June 30, 1998 increased to $467,000 from $38,000 for the same period in 1997, and increased as a percent of net sales to 1.4% from 1.0%, primarily due to increased salaries, consulting, and tooling expenses associated with the development of new products.

Operating income increased to $10.8 million for the three months ended June 30, 1998 from $4,000 for the comparable period of 1997, and increased as a percentage of net sales to 31.8% from 0.1%, respectively.

SIX MONTHS ENDED JUNE 30, 1997 COMPARED TO SIX MONTHS ENDED JUNE 30, 1998

Net sales increased to $58.3 million for the six months ended June 30, 1998 from $5.4 million for the comparable period of 1997, primarily due to the continued market acceptance of the Company's Tight Lies-Registered Trademark- line of fairway woods, and, to a lesser extent, a price increase effective January 1, 1998. Net sales of the Tight Lies-Registered Trademark- line of fairway woods increased to $56.6 million from $4.5 million for the comparable period of 1997, and increased as a percentage of net sales to 97.0% from 81.7%, respectively. Sales of the Tight Lies-Registered Trademark- fairway woods increased subsequent to the Company's introduction of an infomercial marketing its original Tight Lies-Registered Trademark- fairway wood in the second quarter of 1997. Net sales of other product lines for the six months ended June 30, 1998 increased to $1.7 million from $0.9 million for the comparable period of 1997, but decreased as a percentage of net sales to 3.0% from 18.3%, respectively. Net sales of the Company's products outside the U.S. increased to $5.5 million for the six months ended June 30, 1998 from $0.4 million for the six months ended June 30, 1997, and increased as a percentage of net sales to 9.5% from 7.4%, respectively. The increase in international sales was due to increased market acceptance of the Tight Lies-Registered Trademark- fairway woods and expanded international marketing efforts beginning in the last half of 1997.

Cost of goods sold increased to $13.6 million for the six months ended June 30, 1998 from $2.1 million for the comparable period of 1997, but decreased as a percentage of net sales to 23.4% from 39.3%, respectively, primarily due to an increased percentage of net sales attributable to the higher margin Tight Lies-Registered Trademark- fairway woods and the inherent cost savings associated with buying components in large volumes and assembling them on a substantially increased scale.

Operating expenses are composed primarily of selling and royalty expenses, general and administrative expenses, and to a lesser extent, research and development expenses. Selling and royalty expenses increased to $17.4 million for the six months ended June 30, 1998 from $2.3 million for the comparable period in 1997 as a result of hiring additional employees, incurring increased levels of services provided by independent contractors and increased marketing and advertising efforts. Selling and royalty expenses decreased as a percent of net sales to 29.8% from 42.0% respectively, primarily due to the economies of scale of providing advertising for a substantially higher volume of sales. General and administrative expenses, including provisions for bad debts, increased to $7.0 million for the six months ended June 30, 1998 from $0.9 million for the comparable period ended June 30, 1997, primarily as a result of hiring additional employees and incurring higher occupancy costs. As a percent of sales, general and administrative expenses decreased to 12.0% for the six months ended June 30, 1998 from 16.8% for the comparable period in 1997 primarily due to the fixed nature of many of the general and administrative expenses when compared to the increased volume of net sales. Research and development expenses for the six months ended June 30, 1998 increased to $664,000 from $38,000 for the comparable period in 1997, and increased as a percent of net sales to 1.1% from 0.7%, primarily due to increased salaries, consulting, and tooling expenses associated with the development of new products.

Operating income increased to $19.6 million for the six months ended June 30, 1998 from $69,000 for the comparable period of 1997, and increased as a percentage of net sales to 33.7% from 1.3% respectively.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents increased to $3.4 million at June 30, 1998 from $2.0 million at December 31, 1997, primarily as a result of $3.6 million provided by cash flows from operations, $0.8 million provided from the issuance of Common Stock, less $3.0 million used to purchase equipment. The increase in cash flows provided by operations was primarily a result of increased net income, and, to a lesser extent, an increase in payables and accrued expenses of $4.5 million for the six months ended June 30, 1998. The increase in payables and accrued expenses were primarily due to purchases of advertising media during the golf season, increased income taxes, system development software and consulting services, and accrued compensation incentives. Primary uses of operating cash flows were increases in receivables and inventory of $8.6 million and $5.2 million, respectively for the six months ended June 30, 1998. The increases in receivables and inventory are primarily the result of continued sales growth.

Cash used in investing activities of $3.0 million for the six months ended June 30, 1998, is primarily related to purchases of computer equipment and software, telephone systems, and furniture and fixtures. The Company anticipates making capital expenditures in the ordinary course of business of approximately $4.0 million in the balance of 1998, which includes implementing a customer management information system and an enterprise resource planning system.

Working capital totaled $17.9 million at June 30, 1998 compared to $6.9 million at December 31, 1997.

The Company has a $10.0 million revolving credit facility, which expires on December 31, 1998. At June 30, 1998, the Company had no outstanding borrowings under this facility. Borrowings under the Company's revolving credit facility agreement are at interest rates based on the lending bank's general refinance rate of interest or certain LIBOR rates of interest. Obligations under the revolving credit facility loan agreement are collateralized by substantially all of the accounts receivable, inventory and equipment of the Company. During the first quarter of 1998, the Company borrowed approximately $1.1 million in the form of a note payable to the Company's founder, Chief Executive Officer and President to be used for working capital purposes. The remaining principal amount of the note ($534,899 at June 30, 1998) is payable in two installments on December 15, 1998 and April 14, 1999 at an interest rate of 5.39%.

The Company is not aware of any event or trend which would potentially affect its liquidity. In the event such a trend would develop, the Company believes that the cash flow from operations, the net proceeds of the Offering (approximately $58.8 million) and the Company's $10.0 million credit facility would be sufficient to meet operating needs and capital expenditures for at least the next 12 months.

SEASONALITY AND QUARTERLY FLUCTUATIONS

Golf generally is regarded as a warm weather sport and sales of golf equipment historically have been strongest during the second and third quarters, with the weakest sales occurring during the fourth quarter. In addition, sales of golf clubs are dependent on discretionary consumer spending, which may be affected by general economic conditions. A decrease in consumer spending generally could result in decreased spending on golf equipment, which could have a material adverse effect on the Company's business, operating results and financial condition. In addition, the Company's future results of operations could be affected by a number of other factors, such as unseasonal weather patterns; demand for and market acceptance of the Company's existing and future products; new product introductions by the Company's competitors; competitive pressures resulting in lower than expected average selling prices; and the volume of orders that are received and that can be fulfilled in a quarter. Any one or more of these factors could result in the Company failing to achieve its expectations as to future sales or net income.

YEAR 2000 COMPLIANCE

Many existing computer systems and applications and other control devices use only two digits to identify a year in the date field without considering the impact of the upcoming change in the century. As a result, as year 2000 approaches, computer systems and applications used by many companies may need to be upgraded to comply with Year 2000 requirements ("Year 2000"). The Company relies on its systems in operating and monitoring many significant aspects of its business, including financial systems (such as general ledger, accounts payable, accounts receivable, inventory and order management), customer services, infrastructure and network and telecommunications equipment. The Company also relies directly and indirectly on the systems of external business enterprises such as customers, suppliers, creditors, financial organizations and domestic and international governments. The Company currently estimates that its costs associated with Year 2000 compliance, including any costs associated with the consequences of incomplete or untimely resolution of Year 2000 compliance issues, will not have a material adverse effect on the Company's business, financial condition or results of operations. However, the Company has not exhaustively investigated and does not believe it has fully identified the impact of Year 2000 compliance and has not concluded that it can resolve any issues that may arise in complying with Year 2000 without disruption of its business or without incurring significant expense. In addition, even if the Company's internal systems are not materially affected by Year 2000 compliance issues, the Company could be affected through disruption in the operation of the enterprises with which the Company interacts.

FORWARD-LOOKING STATEMENTS

This Quarterly Report contains "forward-looking statements" made under the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on the beliefs of the Company's management as well as assumptions made by and information currently available to the Company's management. When used in this report, the words "anticipate," "believe," "expect" and words or phrases of similar import, as they relate to the Company or Company management, are intended to identify forward-looking statements. Such statements reflect the current view of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions related to certain factors including, without limitation, product development; product introductions; market demand and acceptance of products; the impact of changing economic conditions; business conditions in the golf industry; reliance on third parties including suppliers; the impact of market peers and their products; the actions of competitors, including pricing; risks concerning future technology; and one time events and other factors detailed in the Company's prospectus and other Securities and Exchange Commission filings. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Based upon changing conditions, should any one or more of these risks or uncertainties materialize, or should any underlying assumptions prove incorrect, actual results may vary materially from those described herein. The Company does not intend to update these forward-looking statements. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the applicable cautionary statements.

PART II. OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Use of Proceeds.

(1) On July 9, 1998 the Securities and Exchange Commission declared effective the Company's Registration Statement on Form S-1 (File No. 333-51715).

(2) The Offering date was July 10, 1998.

(3) Not applicable.

(4) (i) The Offering has terminated and all of the securities registered have been sold.

(ii) Managing Underwriters: Lehman Brothers, NationsBanc Securities LLC and Ferris, Baker Watts, Incorporated

(iii) Title of Class of Securities Registered: Common Stock, par value $0.001 per share.

(iv)

	ISSUER	SELLING SHAREHOLDERS
Amount registered (shares)........	4,037,500	2,862,500
Aggregate price of the offering amount registered..............	$64,600,000	$45,800,000
Amount sold (shares).............	4,037,500	2,862,500
Aggregate offering price of the amount sold to date............	$64,600,000	$45,800,000

(v) Estimate of Expenses:

Underwriters' discounts and commissions	$ 7,728,000
Less: Underwriters' discounts and commissions paid by selling shareholders	(3,206,000)
All other expenses (estimated)	1,250,000
Total expenses paid by issuer	$ 5,772,000

All of the total expenses paid by issuer of $5,772,000, were comprised of direct or indirect payments to others.

(vi) Net Offering Proceeds: $58,828,000 to issuer.

(vii) Use of Net Offering Proceeds: Pending final application of the net proceeds of the Offering, the Company has invested such proceeds primarily in interest bearing marketable securities.

(viii) Material Change in the Use of Proceeds: Not applicable.

ITEM 6(a). EXHIBITS

SEE EXHIBITS INDEX AT PAGE 17.

ITEM 6(b). REPORTS ON FORM 8-K

None

SIGNATURES:

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereonto duly authorized.

Date: August 6, 1998

By: /s/ B. H. (Barney) Adams

B. H. (Barney) Adams, Chairman of the Board, Chief Executive Officer and President

Date: August 6, 1998

By: /s/ Darl P. Hatfield

Darl P. Hatfield, Senior Vice President-Finance and Administration and Chief Financial Officer

EXHIBIT INDEX

Exhibit	Description	Location
Exhibit 3.1	Amended and Restated Certificate of Incorporation	Incorporated by reference to Form S-1 (Exhibit 3.1)
Exhibit 3.2	Amended and Restated By-laws	Incorporated by reference to Form S-1 (Exhibit 3.2)
Exhibit 4.1	1998 Stock Incentive Plan of the Company dated February 26, 1998	Incorporated by reference to Form S-1 (Exhibit 4.1)
Exhibit 4.2	1996 Stock Option Plan dated April 10, 1998	Incorporated by reference to Form S-1 (Exhibit 4.2)
Exhibit 4.3	Registration Rights Agreement dated April 30, 1998, among the Company and certain stockholders of the Company	Incorporated by reference to Form S-1 (Exhibit 4.3)
Exhibit 4.4	Adams Golf, Ltd. 401(k) Retirement Plan	Incorporated by reference to Form S-1 (Exhibit 4.4)
Exhibit 10.1	Agreement between the Registrant and Nick Faldo, dated April 22, 1998	Incorporated by reference to Form S-1 (Exhibit 10.1)
Exhibit 10.2	Revolving credit agreement dated February 27, 1998, between Adams Golf Direct Response, Ltd., Adams Golf, Ltd. And NationsBank of Texas N.A.	Incorporated by reference to Form S-1 (Exhibit 10.2)
Exhibit 10.3	Commercial lease agreement dated December 5, 1997, between Jackson-Shaw Technology Center II, Ltd. and the Company	Incorporated by reference to Form S-1 (Exhibit 10.3)
Exhibit 10.4	Commercial lease agreement dated April 6, 1998, between Jackson-Shaw Technology Center II, Ltd. and the Company	Incorporated by reference to Form S-1 (Exhibit 10.4)
Exhibit 10.5	Letter agreement dated April 13, 1998, between the Company and Darl P. Hatfield	Incorporated by reference to Form S-1 (Exhibit 10.5)
Exhibit 11.1	Computation of Per Share Earnings	Included in this filing
Exhibit 27.1	Financial Data Schedule	Included in this filing

EARNINGS PER SHARE - EXHIBIT 11.1

(UNAUDITED)

BASIC INCOME (LOSS) PER SHARE:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1997	1998	1997	1998
Net income (loss)	$ (4,455)	$ 6,657,165	$ 40,840	$12,299,509
Weighted average shares outstanding	11,873,234	18,802,579	11,873,234	18,218,730
Income (loss) per share	$ .00	$ .35	$ .00	$ .68

DILUTED INCOME (LOSS) PER SHARE:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1997	1998	1997	1998
Net income (loss)	$ (4,455)	$ 6,657,165	$ 40,840	$12,299,509
Weighted average shares outstanding	11,873,234	18,802,579	11,873,234	18,218,730
Effect of dilutive shares-stock options	-	235,668	-	445,557
Total weighted average dilutive shares	11,873,234	19,038,247	11,873,234	18,664,287
Income (loss) per share	$ .00	$ .35	$ .00	$ .66

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR ADAMS GOLF, INC. AND ITS SUBSIDIARIES FOR THE SIX MONTHS ENDED JUNE 30, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

PERIOD TYPE	6 MOS
FISCAL YEAR END	DEC 31 1998
PERIOD START	JAN 01 1998
PERIOD END	JUN 30 1998
CASH	3,363,814
SECURITIES	0
RECEIVABLES	17,387,819
ALLOWANCES	1,148,805
INVENTORY	9,669,874
CURRENT ASSETS	31,948,314
PP&E	3,680,507
DEPRECIATION	632,569
TOTAL ASSETS	45,904,741
CURRENT LIABILITIES	14,093,705
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	19,099
OTHER SE	31,791,937
TOTAL LIABILITY AND EQUITY	45,904,741
SALES	58,328,194
TOTAL REVENUES	58,328,194
CGS	13,625,444
TOTAL COSTS	17,386,730
OTHER EXPENSES	7,040,643
LOSS PROVISION	646,213
INTEREST EXPENSE	43,394
INCOME PRETAX	19,518,181
INCOME TAX	7,218,672
INCOME CONTINUING	12,299,509
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	12,299,509
EPS PRIMARY	.68
EPS DILUTED	.66

End of Filing

FERRIS BAKER WATTS

Institutional Equity Research

Leisure & Lifestyle Consumer

New Recommendation: Buy

August 12, 1998

Adams Golf, Inc.

- Adams has jumped from obscurity 18 months ago to the number-three market share leader in the woods category of the golf club market.
- With other domestic and international opportunities available, Adams should be able to leverage its success into future growth.
- The stock is trading at just 7.0 times 1999 projected EPS with $2.75 net cash per share on the balance sheet and positive free cash flow of $11.2 million this year.
- We rate Adams a Buy with a 12-month price target of $19, incorporating a valuation that is in-line with a leisure durables peer group.

ADAMS 004175

JOSEPH TEKLITS (410) 659 – 4605
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DAVID TURNER (410) 468 – 2837
dturner@fbw.com

Company Profile

Background: Barney Adams, the Chairman of the Board, CEO, and President of Adams Golf, founded the company in 1987. In 1992, the company established a custom fitting operation at the Hank Haney Golf Ranch in McKinney, Texas, a well-known teaching and practice facility. From 1987 to 1995, the company was primarily engaged in its custom fitting club system for irons. The Tight Lies fairway was introduced in 1995 to address the average golfers inability to get the necessary ball-flight trajectory to maximize distance with a long iron or oversized fairway wood. Utilizing an innovative marketing approach, the company's first Tight Lies infomercial aired in April 1997. Sales subsequently grew to $37 million in 1997 from $3.5 million in 1996.

Headquarters: Plano, Texas

Description: Adams Golf designs, manufactures, and markets premium quality golf clubs. Adams uses a creative marketing model, based on direct response and traditional image-based advertising, to develop brand awareness. The Company's design objective is to provide meaningful performance benefits and inspire player confidence.

Distribution: Adams maintains an internal sales force of 25 which services over 7,000 retail accounts. The department is supported by 13 field-based regional account coordinators and a 30-seat customer call center. The company's products are sold through select on and off-course golf shops and sporting goods stores. Adams also utilizes infomercials to sell its original Tight Lies fairway wood.

Design and Manufacturing: A team consisting of seasoned independent consultants, members of management, and British professional golfer Nick Faldo, has been established to design and develop new technologies and products. The company sources out the production of substantially all of its club heads to facilities in S.E. Asia. Shafts are manufactured in both Asia and the U.S. The clubs are assembled in a company facility in Plano, Texas.

Products: Adams' primary product is the *original Tight Lies* fairway wood. Products within the expanded *Tight Lies* fairway wood line are derivatives of the original and incorporate differing degrees of loft. The line now includes *strong 2, 3, 5, 7, 9* and *11 woods* (12-degree through 32-degree loft), and the *original* 16 degree lofted club. The company's other clubs, which are not marketed heavily, include the *Air Assault Driver* and the *Assault – VMI irons*. All of the above products are available for both men and women golfers.

Competition: Callaway, Taylor Made, Orlimar, Cobra, and Titleist account for the strongest competition in the woods club category domestically and in Europe, and Wilson is also on the European list of top brands. Asian club brands are the most popular in their home region.

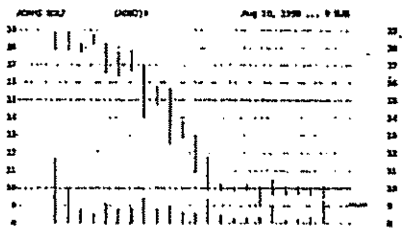
Growth Strategy: To further strengthen the Adams brand and establish itself as a leading developer of technologically innovative, performance-oriented golf clubs. Elements of this strategy include: continuing to increase its share of the fairway woods market, leveraging consumer acceptance of the Adams brand and marketing strategy into other club categories, and expanding international sales.

Management Team: B.H. (Barney) Adams, age 59, Chairman, CEO, and President; Darl P. Hatfield, age 52, Senior VP, Finance and Administration, and CFO; Richard H. Murtland, age 57, VP, Research and Development, Secretary, Treasurer, and Director.

ADAMS 004176

Target Price ($)	19	Recent Price ($)	8 7/16
52-Week Range	18 7/8 – 8 1/4	# Shares (mil):	22.6
Rating:	BUY	Market Cap ($ mil):	191.5
Book Value: ($)	3.97	Tangible Book: ($)	3.53
L.T. Debt/Total Cap:	0%	Avg. Daily Vol.:	850,000
L-T Rev. Growth:	25%	EPS Growth:	25%
Dividend: ($)	Nil	Yield:	0.0%
Insider Ownership:	63%	Float (mil):	8.4

		1997	1998	1999
Mar.	Q1	NA	$0.30 A	$0.32 E
Jun.	Q2	NA	$0.35 A	$0.41 E
Sep.	Q3	NA	$0.20 E	$0.28 E
Dec.	Q4	NA	$0.14 E	$0.20 E
	FY	$0.36 A	$0.95 E	$1.21 E
	P/E	23.6 x	8.9 x	7.0 x



Summary and Investment Thesis

We are initiating coverage of Adams Golf (ADGO—NASDAQ) with a Buy recommendation and a 12-month price target of $19. A virtual unknown two years ago, the company has made a dramatic leap to the number three share leader in the domestic woods market with only a line of fairway woods. However, ADGO shares are down 47% from the $16 IPO one month ago, reflecting skepticism as to whether the company can maintain its market position. Stiff competition in the fairway woods category from fellow rising star Orlimar and from Callaway's next generation of metalwoods being introduced this month has cast doubt on Adams growth potential. Our buy recommendation is based on the fact that Adams has many growth opportunities beyond the domestic fairway woods market, and on our belief that it will be easier to successful introduce future clubs than it was to launch the Tight Lies. The Tight Lies was a new product in a very competitive environment that did not have the benefit of significant brand recognition. In this respect, the fact that the company currently only markets one club should be viewed as an opportunity, not a shortcoming. Also, We believe investor pessimism regarding competitive pressures and the company's growth potential is overdone:

- Tight Lies is still selling very well, and a new driver will be launched in less than six months.
- Market share holding steady above 10% for three straight months – number three in the woods category without a driver.
- Imitations and knockoffs, which have already surfaced, should legitimize the Tight Lies. The marketing hype coming from different directions should also heighten the demand for fairway woods, which helps the brand that created the category.
- International distribution just beginning to ramp up – $4.1 million in Q2:98 vs. $1.4 million in Q1:98.
- Increased exposure of the Adams brand could enhance sales of the company's irons at custom club fitting locations, and the Air Assault driver it introduced in Fall 1994.
- Callaway's new club introduction this month is not a guaranteed homerun, and the company still needs to find a way to offer retailers a reasonable profit margin.

We are projecting that domestic Tight Lies fairway woods sales of $93.4 million will account for 90% of the company's total sales in 1998, yet the fairway woods market is only 23% of total U.S. sales. This leaves Adams with significant growth opportunities in other club categories once new products are introduced. Also, the international club markets equal roughly the size of the U.S., and Adams' estimated $8.2 million in international sales in 1998 can possibly be improved upon many times over. **At just 8.0 times our 1999 earnings estimate, or 5.7 times earnings after reducing the share price by the $2.75 net cash per share expected on the balance sheet by year-end 1998, the risk/reward of ADGO is very appealing. Based on an EPS estimate of $1.21 in 1999, we believe the stock can appreciate to at least $19 in 12 months, in-line with the 15.8 times earnings multiple granted to a leisure durables peer group. We rate Adams Golf a Buy.**

Adams golf has accomplished what seemed impossible only a year ago; it broke through the huge barrier that separated golf's haves and have-nots – a kind of Berlin Wall of the golf industry. Domestic golf club market share consolidated into the hands of the industry's top five players in 1996 to the tune of 61% as compared to a 30% share in 1991 (Appendix A). The top brands had the marketing muscle and R&D funds to continue to grow at the expense of smaller players that couldn't keep up. Success for Adams began in 1997 with the introduction of a unique club during an otherwise mature technology cycle. By combining the Tight Lies with a marketing approach that included taking the message directly to the consumer through infomercials, the company was able to bore a hole in the industry's dividing wall.

Others are now rushing through the wall, while the establishment, Callaway and Taylor Made, are scrambling to resurrect it. We believe that the tools Adams used to get where it is today will provide it with the means to continue to compete effectively against both the old guard and the new players such as Orlimar, which followed Adams to overnight success in the shallow-faced metalwoods rage. Being first to market and having a head start in the new fairway woods race gives Adams an advantage, not only domestically, but also in Europe and other parts of the world where the brand is being discovered. The company's tools are not only product and marketing related, but as importantly, include a solid infrastructure. Adams has won over 200,000+ direct marketing customers and 7,000+ golf shop wholesale customers that appreciate its well-developed customer service and execution capabilities. Thus, a platform has been established that will allow the company to introduce additional new clubs. We are assuming the company will launch a new driver in January 1999, a category which accounts for about $470 million in annual spending in the U.S. Ultimately, consumers will dictate Adam's fate, but the brand's popularity is still on the rise and the company will be offered many more opportunities to grow its business.

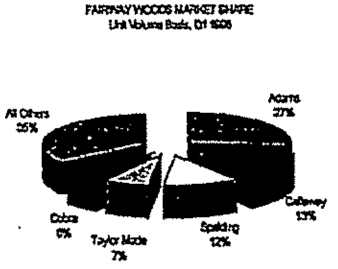
Another product to take the golf industry by storm was Callaway's Big Bertha in 1991. Callaway went public in 1992 with basically only the Big Bertha "in its bag," achieving sales of $55 million that year. It has leveraged the Big Bertha into the most popular club brand in the world. Sales of Big Bertha, and an updated Big Bertha Warbird line, grew from $29 million in 1991 to $324 million in 1994, after which it was cannibalized by the Great Big Bertha. The stock appreciated 15-fold

from its IPO to an all-time high of $38 1/8 in 1997, yet there were undoubtedly skeptics from the start. The odds of another Callaway are not favorable, but even a third of its success would be a rewarding payoff.

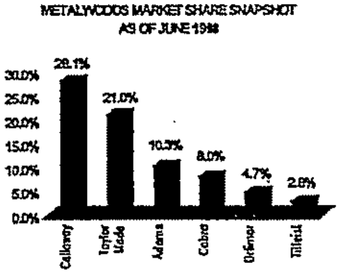
Key Points:

Number three domestic market share leader in the woods category with only half the firepower of the competition. Now that the Adams name is established with over one million satisfied customers, the odds of successful future product introductions has been heightened. Adams is the market share leader in the fairway woods market in the U.S. It is also number three in the total woods market, ahead of many popular brands that market both drivers and fairway woods, and behind the two companies that dominate the driver market.

CHART 1



Source: *Golf Market Research Institute*



Source: *Golf Datatech*

We are projecting domestic driver sales of $30 million in 1999, which is slightly less than 1997 Tight Lies sales even though the Tight Lies didn't ramp up until infomercials started running in April of that year. Adams has a database of over 200,000 existing customers to whom it can directly market its new driver in 1999, and it can also go back to the infomercial format that launched the Tight Lies. The company also has over 7,000 accounts that will likely stock a new Adams product.

International sales yet to come. Nine out of the top ten golf club brands in Europe are American, and the European markets have tended to mirror the U.S. market in the 1990s. Adams now has 33 distributors in 39 countries, and internationally renowned British golfer Nick Faldo endorsing the brand. International sales accounted for 37% of industry leader Callaway's total volume in the first half of 1998, or $152 million. With the domestic strength of the Tight Lies now spilling over into international markets, our projection of $25 million coming from these markets for full-year 1999 seems very reasonable.

ADAMS 004179

Brand trickling down to average golfers. Although *avid golfers* (more than 25 rounds per year) account for over 60% of domestic spending on the game and about 21% of the golfing population, there is still a large customer base of occasional golfers who are just beginning to discover the Adams name. The Tight Lies has been the hottest selling fairway wood in 1998, which, along with its competitive price point, should give it the advantage with less active golfers who pick up on the fairway woods craze but don't want to commit significant funds to the game.

TABLE 1
FAIRWAY WOODS PRICE POINTS AS RETAIL ($'S)

		Graphite Shaft	Steel Shaft
Adams	Tight Lies	199.95	149.95
Callaway			
	Big Bertha War Bird	199.95	159.95
	Big Bertha Steelhead	299.95	199.95
Cobra			
	Bafflers	189.95	--
Orlimar			
	Trimetal	269.95	Not Available
Taylor Made			
	Burner Metal Woods	199.95	149.95

Source: Golfsmith and Edwin Watts catalogs.

So far, Adams has sold roughly one million Tight Lies domestically. Assuming that 50% of Tight Lies customers buy a second club, the company has reached only about 500,000 of the 26 million domestic golfers.

Unique sales and marketing formula. The Adams machine is different from any other in the golf industry. The company has 97 custom fitting locations nationwide, and three overseas, that allow it to stay in touch with core golfers at the grass roots level and to test new products. The company also creates consumer demand for its wholesale customers through direct marketing, which is one reason the company has endeared itself to the retail golf channel. When Adams launches its next product, retailers will know that the product has been tested and that a buzz with customers has been created. We believe additional "outside the box" initiatives will be taken by the company to continue its masterful promotion of the Adams brand.

Well-established infrastructure to handle growth. With direct marketing accounting for an estimated 12% of sales in 1998, Adams has been forced to establish a customer service-based infrastructure that can turn around high volume unit orders overnight. Not only does the company's current set-up facilitate direct sales, it provides for a very service-oriented and well-organized distribution process that is able to ship on schedule and meet the many other needs of wholesale customers. Despite its steep growth curve, Adams has been consistent in meeting a three-day shipment window to wholesale customers once an order is received.

ADAMS 004180

Solid Financials. The company's cash position is expected to increase to roughly $65 million by year end, giving it flexibility to make strategic acquisitions and internally fund expanded avenues of growth. Adams also has no long-term debt, and working capital (receivables + inventory – payables) of $23 million. Inventory levels increased six-fold and were turned 3.8 times in 1997, supporting sales that increased by a multiple of ten over 1996. Annualized inventory turn through the first half of 1998 was 3.9 times. Estimated capital expenditures of $7.0 million in 1998 and approximately $5.0 million in 1999 will be used to upgrade the company's information systems and launch a new driver. Cash flow after capital expenditures and before working capital needs is projected to reach $11.2 million in 1998 and over $20 million in 1999.

TABLE 2

($000's)	1995	1996	1997	1998E	1999E
Net Income	(243)	142	6,785	19,838	28,698
Depreciation and Amortization	8	19	303	1,600	2,100
Capital Expenditures	9	121	770	7,000	5,000
Cash Flow	(244)	40	6,318	11,238	21,598

Source: Company reports and FBW estimates.

Concerns:

Extremely competitive environment. The pace of technological innovation has quickened in the golf industry, and what is "hot" today can be old news tomorrow. In essence, there may be more "fashion risk" in the club business than in the golf apparel business. With new golf clubs continuously being introduced, it is difficult to project a product's lifecycle. Also, recent wholesale price cutting by Callaway and Taylor Made are negatively affecting pricing power, making it difficult to increase or maintain margins.

TABLE 3
Revolutionary Golf Club Changes:

1930	1980	1991	1995	1997
Persimmon	Steel clubhead	Big Bertha	Titanium	Shallow-faced woods
Steel Shaft		(oversized)	Specialty shafts	Stainless steel is back

Next product introduction is critical. We are projecting roughly flat domestic Tight Lies sales in 1999 compared to 1998, meaning much of the year's growth will be dependent on a new product introduction. Also, the Adams' brand is associated with its Tight Lies fairway woods in the minds of most consumers. The company's next club can have the affect of building the perception that Adams is either a premier golf club manufacturer that will continue to introduce premium products, or that it just got lucky once.

ADAMS 004181

Q2:98 Results

Second quarter sales increased by roughly ten times over Q1:98 to $33.8 million. Adams' original 16 degree Tight Lies accounted for approximately 45% of sales, with other Tight Lies lofts comprising 52% and other clubs accounting for 3%. About 12% of sales were international, mainly to Europe and Asia. This was the first substantial international business that the company has experienced, and it should be more material to the overall business in 1999. Direct response sales reached $4.0 million, an increase from $1.3 million a year ago, and accounted for 11.8% of overall sales. The channel's sales contributed a record $4.8 million to Q3:97 sales, and our model conservatively assumes negative year-over-year comparisons going forward. Inside sales, or traditional wholesale business selling to retailers, grew to $25.1 million from $2.1 million a year ago.

Gross margin continued to improve from already lofty levels. The 77.0% gross margin in the second quarter was 100 basis points above Q1:98 and significantly above the 60.1% level reached a year prior. Cost savings on sourced component parts was the primary driver of the improvement as compared to Q1:98, and a greater percentage of Tight Lies in the sales mix accounted for the year-over-year improvement. We believe the margin improvement trend will end once international sales and a driver become more meaningful to the overall business. Operating expenses totaled $15.3 million, or 45.2% of sales. Selling and royalty expenses, the largest component of operating expenses, increased to 32.9% of sales as compared to 25.5% in Q1:98. The hiring of additional employees, Nick Faldo's stock compensation amortization expense, and special marketing campaigns during the quarter drove the increase. Operating leverage should improve going forward.

1999 Outlook

Our 1999 EPS estimate assumes sales of $153 million as broken down in table 4. The sales mix is very important because each category carries a different gross margin. The company keeps the retail markup in direct sales, and offers foreign distributors a discount to the domestic wholesale price in order to stay price competitive in those regions. Also, fairway woods are the industry's highest margin club, and the driver roll-out in 1999 could have about a 15% lower margin. Our projection of a 71.3% 1999 gross margin as compared to 76.1% in 1998 incorporates international sales and a new driver as 16.3% and 19.6% of the total mix, respectively. Below we address three different categories of sales and why we believe Adams can meet these projections.

TABLE 4

	Tight Lies	New Driver	International Sales	Other
1997A	$34.3	NA	NA	$1.6
% change	--	--	--	
1998E	$93.4	NA	$8.2	$2.3
% change	166%	--	--	44%
1999E	$94.0	$30.0	$25.0	$3.0
% change	3%	--	205%	74%

Other: irons from custom fitting centers and Air Assault driver
Source: FBW estimates.

Domestic fairway woods sales of $94 million in 1999, about even with 1998.
The Tight Lies growth curve of $1.7 in 1996 sales to an estimated $93.4 million in 1998 business would be considered very impressive for any club manufacturer, let alone a virtual unknown like Adams Golf. The question now is at what point the growth cycle will mature, and if growth in the U.S. can be maintained with stiffer fairway woods competition and knock-offs already popping up. Based on market share trends in the woods market, which shows Adams at 10.3% in June 1998 as compared to 7.0% in January 1998, we believe that our 1999 Tight Lies sales projection being equivalent to 1998 is plausible. The club's share of the woods market increased through April 1998, and is beginning to flatten out. Next year, sales are projected to be up in the first quarter over the same period in 1998, then roughly flat for the remainder of the year.

We believe that the growing focus on fairway woods by everyone from Orlimar to Callaway and Titleist (both launching new fairway woods this month) may not be as damaging to Adams' franchise as current stock price levels reflect. Though shallow-faced fairway woods are not new to the game, Adams was first to market during the current cycle and is credited with the resurgence of the design. With the perception of being the authentic shallow-faced fairway wood, Adams may have the advantage that allowed the Big Bertha concept to dominate the oversized club head category since 1992. Also, all the attention being given to fairway woods should certainly expand interest in the clubs and thus the size of the market, and we believe that many non-core golfers are still just learning about the Adams name and products. Adams is launching a 2-wood and an 11-wood at this month's industry trade show to accompany its current line, giving Tight Lies users a reason to add another loft. Already, management believes 80% of customers purchase a second club, and a 2-wood is different enough from the original 16-degree Tight-Lies, (which would be considered a 4-wood), that it is complementary and could even be used in place of a driver. In the first half of 1998, over 45% of sales were in the original 16-degree Tight Lies, leaving room for other lofts to catch up.

Driver sales of $30 million in 1999 – a new product.
Adams has 200,000 + names from its direct marketing program that have already purchased an Adams club, and a retail network of over 7,000 stores that should inventory the club initially because it appreciates the brand name, marketing efforts, and service that backs the clubs. We are assuming sales of $15 million from direct response and $15 million from traditional retail orders in our model. To meet our estimate for retail channels, the company's 7,000 accounts that have had success with the Tight Lies would each have to buy nine drivers in 1999 – certainly achievable. The direct marketing campaign is attacking a driver market that is slightly larger than the domestic fairway woods market, and should benefit from lessons learned during the company's first direct marketing campaign, as well as from having a qualified customer list.

Our belief about the golf club business is that over all the promotional hype and brand equity, a combination of a club's performance and price is what dictates its perceived value. Since Adams Golf has yet to introduce a driver, it is difficult to project whether the market will embrace it. However, having already proven the ability to design and roll-out a metalwood, and now having additional help from a beefed-up R&D team, Adams should be able to introduce a new driver that

is at least good enough to get a meaningful initial response from both consumers and retailers. Long-term success will hinge more on the club's performance and word of mouth commentary.

International sales of $25 million in 1999, up from a projected 8.2 million in 1998.
Adams has booked $5.5 million of international sales through the first half of 1998, its first year of international distribution. Given that the international markets are roughly as large as the U.S., and that American brands dominate in most markets outside of Asia, we believe a total package of woods – Tight Lies and a new driver – will give Adams the ability to produce international sales of at least $25 million next year. Although Asian sales accounted for about one-third of international sales in Q2:98, we believe most of the initial international success will be in Europe and Canada due to Asia's economic crisis. The Tight Lies line has already found notoriety in Europe, and British golf magazine *Today's Golfer* issued a favorable product test on the club in its February 1998 issue (Appendix B). Also beneficial to Adams in Europe is the sponsorship of British professional golfer Nick Faldo, winner of six major championships including three British Opens.

Sales and Distribution:
Complementing Adams' unique promotional efforts, the company differentiates itself by using a 25-person internal sales force that makes outbound phone calls to accounts, and 13 field-based regional account coordinators that visit and provide customer service to accounts. Its internal sales and distribution system also includes a call center that provides customer service to retailers and consumers, with overflow capacity run through an independent contractor. Orders that are handled in-house are currently fulfilled in-house, and outsourced fulfillment is used to accommodate calls taken by outside contractors. The company is in the process of bringing 100% of fulfillment in-house. This will save Adams an outsourcing fee, and also allow for better quality control.

Adams' approach allows it to monitor and control how often its sales force contacts its 7,000 accounts and continuously monitor customer feedback. Also, without commission-based sales representatives, Adams is better able to leverage its sales and contain selling expenses. The 30-seat call center, up and running during peak call-in times and staffed by several experienced golfers, has the capacity to take sales orders from both wholesale and retail customers, as well as provide technical or any other service-oriented guidance. Overflow during peak times, and all calls during times of low activity, is handled by an independent contractor being paid a commission on a per call basis.

U.S. Golf Industry – 1998

Golf Clubs:
New technology drives golf club sales and is necessary to get golfers to replace the current clubs in their bags. One of the more recent technological innovations, the use of titanium, spurred 17% average annual domestic club sales growth from 1993 to 1997. In 1998 however, the technology cycle has reached a point of maturity. As a result, it is not surprising that the only clubs having success this year are new and have differentiating qualities: Adams' Tight Lies, Orlimar's Tri-Metal, Titleist's 975 driver, and Callaway's X-12 Irons. Stainless steel is the latest trend in woods and irons; witness Callaway's going back to steel for its new metalwood introduction later this month. The only potential revolutionary change in clubhead metals on the horizon is offered by Liquidmetal, a company named after an amorphous metal alloy that inhibits the loss of energy between club and ball. Without improved club materials, companies will have to rely on design changes. Adams utilized this strategy with its Tight Lies fairway wood, and is experiencing a club launch on par with the success of the Big Bertha in 1991 and the Taylor Made Burner Bubble in 1994.

TABLE 5: Worldwide Sales

	Year 1	Year 2	Year 3
Big Bertha:	29.0	98.5	210.0
Tight Lies:	35.1	99.6E	119.0E

Source: Company data and FBW estimates.

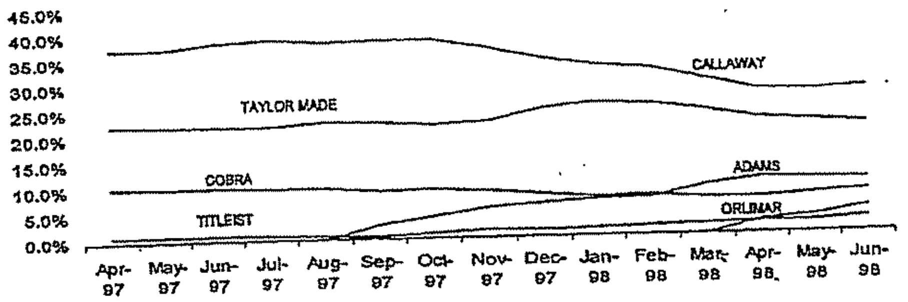
The golf club industry has been turned upside down from a year ago when Callaway reported its highest quarterly earnings in company history and seemed untouchable. At a critical time in the industry's technology cycle, Callaway failed to introduce a new wood at the golf industry's major trade show that kicks off the year. This exposed a crack in the huge barrier it had erected over the past five years. From the early 1990s through the first half of 1997, the top five club makers were consolidating domestic market share and, it seemed, heightening barriers to entry with marketing and R&D muscle. However, Callaway's market share in the woods category slipped from 38.5% in September 1997 to under 28% in May 1998 while Adams jumped to the number three market share leader with over 10% of the market. What has transpired in the golf club industry in 1998, including a two-thirds decline in Callaway's share price, was unthinkable a year ago but demonstrates the power of the changes that have taken place.

ADAMS 004185

[redacted]

CHART 2
(Source: Golf Data Tech)

MARKET SHARE ANALYSIS



Without brand recognition and demand, retailers are reluctant to invest in inventory and give a new brand a chance. But when combining the consumer demand that informercials can create with good margin for the retailer, a virtual unknown like Adams Golf can become an overnight success.The Allen Wedge in the early 1990s was the first successful golf club infomercial. Today, new venues such as the Golf Channel are allowing club companies to directly target core golfers, and Adams has been able to perfect the delivery of its message.

Golf Participation: New highs in 1997; holding steady in 1998.

Tiger-Mania created unprecedented interest in the game of golf in 1997, and quieted some skeptics who pointed to flat growth from 1990-1996 and who argued that the game had too many hurdles to overcome in order to compete for leisure time in today's busy society. And while club sales may be down 10% this year due to a lack of exciting new technology, golf ball sales, a barometer of rounds played, are even with a year ago. Thus, a new platform of participation may be forming. Also, there is other evidence that golf continues to weave its way into American culture. Television ads for everything from Cadillac to Coors Light are using golf's image to leverage its increasingly broad following, and viewership of PGA Tour events this year is up to 5.7 million as compared to 5.0 million in 1997 and 4.2 million in 1996.

ADAMS 004186

The number of golfers jumped to 26.5 million in 1997, up 7% from 1996 and the first significant increase since 1990. The number of rounds played also increased by 7%. Our original thesis on the growth of the golf industry was that aging Baby Boomers, who at 45% account for the largest segment of the golfing population, would be the main driver as they move into the ages (50+) when rounds played and spending on the

TABLE 5

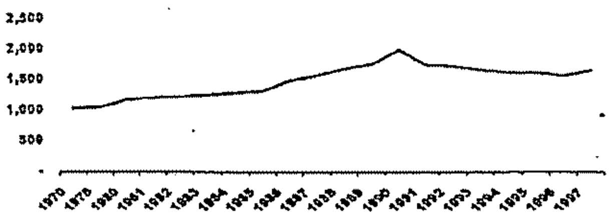
Source: NGF (numbers in 000's)

	Rounds Played	Number of Golfers
1987	431,000	21,200
1988	484,000	23,000
1989	469,000	24,200
1990	502,000	27,600
1991	479,000	24,800
1992	505,000	24,800
1993	499,000	24,500
1994	465,000	24,300
1995	490,000	25,000
1996	477,000	24,700
1997	547,000	26,500

game increase significantly. That thesis remains very valid, but the "icing on the cake" could be younger generations getting involved. The industry as a whole realizes that to get young golfers excited, and to keep new golfers involved, the game has to be both accessible and affordable. New course construction in the U.S. may be moving the industry in that direction. After the growing population of golfers outpaced course openings by 3:1 between 1970 and 1990, course construction began to boom. The number of golfers per course in the U.S. increased to almost 2,000 in 1990 from just over 1,000 in 1975, mainly because Baby Boomers had taken up the game in record numbers. The ratio retreated to 1,655 golfers per course in 1997 after three consecutive years of 300+ course additions.

CHART 3

GOLFERS PER COURSE



Source: National Golf Foundation.

Not only was there an increase in the number of new golfers in 1997, it was also evident that many golfers increased their participation rate (avid golfers up 6.4%). This is the underlying thesis to our projection of long-term industry prosperity. Based on demographics and historical spending, we are projecting that domestic spending on golf will reach $28 billion in 2005, up from 16.3 billion in 1994. About two-thirds of spending on golf has historically been on playing fees, with the balance allocated toward equipment and apparel. We believe domestic spending on new golf clubs will reach approximately $3.0 billion by 2005, a 61% increase from $1.86 billion in 1997 (see *Golf Industry Overview*, October 27, 1997).

International Equipment Market

The combined golfing populations of Europe, Asia, and Canada equaled roughly that of the U.S. in 1997 – roughly 25 million golfers (Table 6). Also, spending on golf in international markets has historically been on par with the U.S.; although that may be changing as spending in Asia is down by an estimated 40%. Golfers in Europe are more likely to be avid (play more than 25 rounds per year) and, on average, spend more on the game than do American golfers. In Europe, annual per golfer spending on equipment was $121 in 1997 as compared to $70 in the U.S.

TABLE 6
GLOBAL GOLF PARTICIPATION

	(000's)
United States	24,737
Canada	4,785
Japan	15,000
Korea	1,000
Taiwan	200
Thailand	100
Indonesia	110
Total SE Asia	1,555
Great Britain & Ireland	3,000
France	285
Germany	273
Scotland	350
Spain	111
Sweden	404
Total Europe	4,614
Total Worldwide Participation	50,691

Source: National Golf Foundation, Sports Marketing Surveys, Ltd., and Golf Digest

ADAMS 004187

Europe

The European club industry is dominated by name brands, many of them American, and is influenced by the same technological trends that drive the U.S. market. The 17% compound annual growth rate in golf equipment sales in the U.S. between 1993 and 1997 was outpaced in Europe, where sales increased at an average pace of 20% annually. Club sales in Europe were approximately $550 million in 1997, up from $220 million in 1992 (Appendix C).

As has been the case in the U.S. in the 1990s, Callaway has jumped to the top of the market share leader board in Europe. With golf catching on in Europe, mostly with the upper-class, travelers on holiday to the U.S. have returned with brand awareness of the most popular clubs in this country. Also, the high proportion of avid golfers in Europe means most read golf magazines and watch tour events, making them easy targets for the industry's best marketers. One of the differences between the American and European markets is that on-course pro shops still account for about one-half of club sales in Europe. In the U.S., the pricing power and convenience of discount golf specialty stores has dropped the pro shop channel's share of the club business to below 30%.

TABLE 7

1997 WOODS MARKET SHARE

	United Kingdom	France	Germany	Sweden
Callaway	22.0%	30.9%	52.3%	36.4%
Taylor Made	8.1%	9.8%	23.3%	10.1%
Wilson	5.9%	9.3%	0.4%	5.8%
Mizuno	5.4%	6.0%	7.5%	1.4%
Cobra	2.3%	5.2%	3.1%	4.9%
MacGregor	1.6%	3.8%	3.1%	4.3%
Titleist	3.3%	2.6%	1.4%	-
Lynx	1.5%	-	2.3%	-
Ping	3.3%	-	2.2%	-
Spalding	1.4%	-	0.6%	4.3%

1992 WOODS MARKET SHARE

	United Kingdom	France	Germany*	Sweden
Taylor Made	13.5%	25.4%	-	10.3%
Wilson	10.0%	11.0%	-	12.6%
Mizuno	6.1%	4.4%	-	15.4%
Spalding	3.7%	-	-	14.3%
MacGregor	2.6%	4.4%	-	5.7%
Callaway	1.0%	5.5%	-	1.2%
Ping	6.2%	-	-	-
Cobra	-	4.8%	-	-
Titleist	-	-	-	-
Lynx	-	-	-	-

*The earliest available market share data for Germany is 1994.

Source: Sports Marketing Surveys, Ltd.

According to a study for the Royal and Ancient Golf Conference in 1997, the number of golfers in Europe totals 4.6 million. This is a jump of 53% from 1986, when the golfer population stood at 3.0 million. The United Kingdom and Ireland represent the largest and most mature markets within Europe. According to Sports Marketing Surveys, Ltd., these countries are home to 3.4 million golfers, having grown 26% since 1986. Golfers in the other primary markets in Europe – France, Germany, and Sweden – have grown to 962,000 in 1996 from 348,000 in 1986, up 176% in ten years.

United Kingdom. Golfers in the UK are mostly middle aged, come from an upper-middle class socioeconomic group, are male, and belong to a private club. Approximately 21% of the golfers are between the ages of 45 to 54, and 19% are between 35 and 44 years old. The overwhelming majority (94%) of the golfing population has been playing for more than two years and 78% play

ADAMS 004188

at least once a week. Almost 50% regularly read a golf magazine, and those who have access to satellite/cable television watch slightly over 4.5 hours of golf per week.

Although the most mature golf market in Europe, the United Kingdom is also the largest and equipment purchases have kept pace with less-developed but growing markets. During 1997, 30% of the golfing population purchased a new wood, with an additional 6% buying a used model. That compares with 1994 when 19% of the golfing public bought a new wood. Clubs are purchased about equally at both pro shops and off-course specialty shops.

France. With an average handicap of 28, French golfers reflect the fact that about 30% of them have taken up the game during the past two years, representing the highest percentage of new golfers in the major European markets. The average French golfer is 44 years old and is in the upper-middle class socioeconomic group. French golfers are more media intensive than the other European golfers; approximately 70% regularly read golf publications and 75% have watched at least one professional golf event on television in 1997.

The surge in new golfers in France has driven sales of woods in that country to near record levels. Approximately 47% of French golfers purchased a new wood in 1997, compared to an average of 30% in the early 1990's. Points of purchase for woods are almost equally split amongst pro shops and specialty stores.

Germany. Golfers in Germany are just about as likely to be female as male (60:40 split). The most active golfers in this country are between the ages of 45 to 54, come from the upper-middle class, and belong to private clubs. More than 80% of the golfers play more than once per week, meaning most would be considered avid golfers in the U.S., and 90% have been playing the game for more than two years. Almost 75% of the German golfing population reads golf magazines, making it fertile ground for brand building advertisements.

The relatively older German golfing population is an ideal base of customers for fairway woods, a club that is typically easier to hit than long irons for older golfers. With the percentage of golfers purchasing new woods hovering around 35% for the past three years, the woods market remains active. Pro shops are the retail outlet of choice, the result of most German golfers belonging to private clubs.

Sweden. On average, golfers in Sweden have the lowest average age of any major golfing market in Europe, and are mainly middle-class males. A grass roots marketing campaign by the Swedish Golf Federation boosted the under 34 golfer population to 48% of the country's total in 1997, up from 40% in 1992. Sixty-six percent of golfers play more than once a week and 76% have played for more than two years. Weather related issues force golf in Sweden to be a highly seasonal event, with some courses open for only three months.

The country's grass roots effort has created new golfers in need of equipment. Over the past four years, the golfing population has grown at a compound annual growth rate of 11%. Close to 30% of the golfers in Sweden have purchased a new wood in the past four years. As in the other

markets, the stronger brands have consolidated their position as market leaders. Regarding distribution channels, pro shops have a slight lead over golf specialty stores.

European Golfing Infrastructure. There were roughly 6,200 courses (18 and 9 hole) in Europe at year-end 1997. This equates to an annual growth rate of 5.4% since 1986 when approximately 3,500 courses were open. The growth in courses has outpaced the growth in golfers, creating an infrastructure that will not inhibit growth of the game. A lack of tee times has probably limited the growth of golf in the U.S. Even with a rapidly increasing supply of courses in the U.S., there are 1,655 golfers per course. In the larger European markets (United Kingdom, France, Germany, and Sweden) there are 603 golfers per course.

The breakdown of the courses in the primary markets is specific to the characteristics of a country's golfing population. In the United Kingdom, which has the oldest golfing population and the lowest percentage of new golfers, about two-thirds of the golfers play at a private club. And, while a large number of public courses have been built over the past ten years, private courses outnumber public courses approximately 3 to 1. Germany is much the same; upper-middle class, middle-aged golfers play almost exclusively on private courses. Sweden and France, on the other hand, are experiencing a surge in young, new golfers that either don't have the discretionary income to join a private club or are leery of making the commitment. As such, public courses are much more common in these countries.

Asia and Pacific Rim

Fifteen million golfers in Japan and another 1.5 million golfers in the rest of Asia have been subject to significant economic turmoil. As such, equipment purchases have dropped about 40% year-to-date in 1998 as compared to a couple of years ago. An estimated one million golf clubs were purchased in Asia ex-Japan during 1997, yielding a $163 million equipment market, while Japan's equipment market totaled about $800 million last year. Australia's 1.2 million golfers purchased an approximate total of $196 million in equipment during 1997.

Canada

In a 1996 survey, the Royal Canadian Golf Association estimated there were 4.785 million golfers in Canada. The average age of golfers is 39, with those over 12 years old playing, on average, 14 rounds during the year. The average golfer in the U.S., aided by a longer season, plays about 20 rounds per year. As in the U.S., average rounds played increases significantly with age in Canada. Males aged 65 and over averaged 37 rounds annually while those under 18 averaged 11 rounds. Over half of the golfers made more than $50,000 a year and are considered upper-middle class. The Canadian equipment market is about 15% of the size of the U.S. market, slightly lower than the 1:5 ratio of golfers. As such, the Canadian equipment market is estimated at $280 million.

ADAMS 004190

Management Team

B.H. (Barney) Adams. In addition to inventing the company's first product, the Tight Lies fairway wood, Mr. Adams has served since the company's inception as Chairman of the Board, CEO, and President. Prior to founding the company in 1987, Mr. Adams held a variety of senior level positions with several manufacturing firms. Mr. Adams has also authored several magazines articles concerning the technical aspects of golf equipment and is a frequent PGA section speaker.

Darl P. Hatfield. Mr. Hatfield joined Adams Golf in May of 1998 as a Senior Vice President of Finance and Administration and CFO. Mr. Hatfield was previously a partner with KPMG Peat Marwick from July 1977 to April 1998. Mr. Hatfield is a Certified Public Accountant.

Richard H. Murtland. Mr. Murtland joined the company in 1994 as Vice President of Operations. In April of 1998, Mr. Murtland became the Vice President of Research and Development. Prior to joining Adams, Mr. Murtland served as a project manager with ARCO International Oil and Gas Company.

Mark D. Gonsalves. Mr. Gonsalves joined the company in July 1995 as Vice President of Sales and Marketing, Retail. Mr. Gonsalves was President and CEO of a sports psychology firm he founded, named In-Sync Sport International, Inc. In addition, Mr. Gonsalves was a professional golfer from 1990 to 1992.

Conclusion and Valuation

Although Adams has reported significant top and bottom-line growth in the first half of 1998, the stock is reflecting pessimism regarding the future. We believe that solid results in the second half of the year will prove that the company can prosper despite intense competition, and that the introduction of a driver in early 1999 will add enough growth visibility to get investors excited about the Adams story once again. Buying shares at current levels – 4.8 times 1999 EPS after adjusting for net cash per share – should pay off in less than six months. **Our one-year price target of $19 is based on our $1.21 1999 EPS projection and an average peer group earnings multiple of 15.8 times current year earnings. We rate ADGO a Buy.**

Additional information available upon request.
Ferris, Baker Watts, Incorporated makes a market in Adams Golf (ADGO).

Publicly-traded companies mentioned in this report:
Callaway Golf (ELY-$11 15/16:NYSE) – Hold
Fortune Brands (FO-$32 15/16:NYSE) – Not Rated
General Motors (GM-$69:NYSE) – Not Rated
Coors (ACCOB-$37 ¾:NASDAQ) – Not Rated

ADAMS 004191